

October 31, 2005

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
9300 East Hampton Drive
Capitol Heights, MD 20743

RE: Section 272 Biennial Report for BellSouth Telecommunications, Inc. EB Docket No. 03-197

Dear Ms. Dortch:

Pursuant to paragraph 31 (e) of the "General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, for the Period May 24, 2003 through May 23, 2005" in the above referenced matter, PricewaterhouseCoopers LLP is filing our Independent Accountants' Report on Applying Agreed-Upon Procedures with the following appendices:

- Appendix A - Results of Agreed-Upon Procedures
- Appendix B - General Standard Procedures
- Appendix C - Comments from BellSouth Telecommunications, Inc.

This document will also be filed electronically through the Federal Communications Commission's Electronic Comment Filing System.

Very truly yours,

PricewaterhouseCoopers LLP

cc: Alabama Public Service Commission	Mississippi Public Utilities Staff
Florida Public Service Commission	North Carolina Public Utilities Commission
Georgia Public Service Commission	South Carolina Office of Regulatory Staff
Kentucky Public Service Commission	Tennessee Regulatory Authority
Louisiana Public service Commission	

BellSouth Telecommunications, Inc.

Section 272

Biennial Agreed-Upon Procedures Engagement

**Pursuant to Section 272(d)(2) of
The Telecommunications Act of 1996**

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Report of Independent Accountants

To the Management of BellSouth Telecommunications, Inc.
and the Joint Federal/State Oversight Team:

We have performed the procedures enumerated below, which were agreed to by the management of BellSouth Telecommunications, Inc (the "Company" or "BellSouth") and the Joint Federal/State Oversight Team (collectively, the "Specified Parties"), solely to assist you in evaluating management's assertion that BellSouth complied with the requirements of section 272 of the Communications Act of 1934, as Amended (the "section 272 requirements") during the period from May 24, 2003 through May 23, 2005 (the "Engagement Period"). BellSouth management is responsible for BellSouth's compliance with the section 272 requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendices A, B and C. The procedures and the results of performing such procedures are not intended to be an interpretation of any legal or regulatory rules, regulations or requirements.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on BellSouth's compliance with the section 272 requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Specified Parties, and is not intended to be and should not be used by anyone other than these Specified Parties.

PricewaterhouseCoopers LLP

October 31, 2005

Appendix A enumerates the procedures performed by PricewaterhouseCoopers LLP (“PwC” or “we”) in connection with the Bell Operating Company of BellSouth Corporation, (BellSouth Telecommunications, Inc., referred to herein as the “BellSouth BOC”, or “BST”, or the “Company” or “Management”) and BellSouth Long Distance, Inc. (“BSLD” or the “section 272 affiliate”).

Objective I: Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell Operating Company (BOC).

1. We inquired of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this biennial Audit, and whether there have been any legal and/or "doing business as" (“DBA”) name changes since the last engagement period. Management indicated the following:

- *“On March 31, 2004, BellSouth Corporation, the sole shareholder of BSLD and BellSouth Carrier Professional Services, Inc. (“BCPS”), merged BCPS into BSLD. The merger did not change BSLD’s certificate of incorporation, bylaws, or articles of incorporation*
- *On December 31, 2004 BellSouth Corporation, the sole shareholder for BellSouth BSE, Inc. (“BSE”) and BSLD, merged BSE into BSLD. The merger did not change BSLD’s certificate of incorporation, bylaws, or articles of incorporation”*

We obtained and read copies of the Certificates of Mergers for both mergers and noted no legal and/or DBA name changes.

2. We obtained and read BellSouth Corporation’s (“BSC”) organizational charts as of February 28, 2005. We confirmed with legal representatives of BSC, BST, and BSLD the legal, reporting, and operational corporate structure of the section 272 affiliate. We obtained written confirmations from the legal representatives noting that:

- BST is a direct and wholly-owned subsidiary of BellSouth Corporation
- BSLD is a direct and wholly-owned subsidiary of BellSouth Corporation

We inquired of management on the incorporation of BellSouth BSE of Virginia (“BSE-VA”) and management indicated,

“Virginia requires a Virginia incorporated company to provide telecom services in that state. BSE of VA was originally incorporated to provide payphone related services to a prison in Va. That contract expired, but there is still the possibility that BellSouth might

want to provide clec service in Va in the future. Since BSLD is a Del corp, we needed to keep BSE of Va for that eventuality. Thus, BSE of Va. in a sub of BSLD but it does not provide, nor has it ever provided, interLATA telecommunications services and therefore is not a 272 affiliate."

3. We inquired of management which entities perform operations, installation, and maintenance ("OI&M") functions on facilities either owned by the section 272 affiliate, or leased from a third party by the section 272 affiliate for the period prior to March 30, 2004. Management indicated for the period prior to March 30, 2004, BellSouth Carrier Professional Services (BCPS) employees performed OI&M functions for BSLD in addition to the following vendors: Nortel, Lucent, Alcatel, Tekelec, Tekno, Cisco, Sun, Hewlet Packard, Tellabs and Tyco. Effective April 1, 2004, BCPS merged with BSLD.

- (a) We requested management's definition and interpretation of OI&M functions and management indicated the following:

"Operations, Installation, and Maintenance (OI&M) functions in BST are those functions that involve the construction, installation, maintenance and monitoring of the network we use to provide service to our wholesale and retail customers."

- (b) We inquired of management and management indicated that BST or other affiliates, other than BCPS, did not perform OI&M services as described in step (a) on facilities either owned or leased from a third party by BSLD for the period prior to March 30, 2004.
 - (c) We inquired of management and management indicated that BSLD did not perform OI&M services described in step (a) on facilities either owned or leased from a third party by BST for the period prior to March 30, 2004.

4. We inquired of management which entity performed OI&M functions over facilities either owned by or leased from a third party by each section 272 affiliate for the period after March 30, 2004 until May 24, 2005. Management indicated the following:

- *"BCPS provided OI&M services to BSLD between March 30, 2004 and April 1, 2004."*
- *"The Professional Services Agreement made by and between BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. became effective April 22, 2005. The equipment BST is responsible for supporting, for the purpose of this agreement, is all the BSLD equipment that resides in BSLD's, Atlanta, GA, IBM e-Center location (i.e. Siemens Softswitch). The services provided by BST include: twenty-four (24) hours a day/seven (7) days a week/three-hundred sixty-five (365) days a year problem management, work order management, remote monitoring, and fault management related to BSLD's Softswitch."*

- a. Management indicated,

"BellSouth Carrier Professional Services (BCPS) was an operational affiliate from the beginning of the current audit period until it was merged into BSLD on March 31, 2004 at 11:59 P.M. During this timeframe, BCPS provided various services to BSLD including network planning, engineering, installation, operations, maintenance, fraud management, provisioning, service assurance, and customer care. No other BellSouth affiliate, other than BSLD and BST (which provides certain OI&M services to BSLD pursuant to the Professional Services Agreement entered on April 22, 2005), provided OI&M services to BSLD during this audit period."

Management indicated BCPS provided the following services to BSLD (Reference Table 1):

Table 1

<i>Service</i>	<i>Description of OI&M Function</i>	<i>Date first provided to BSLD</i>
<i>Installation</i>	<i>Through managed vendors as well as directly by BCPS employees as required.</i>	<i>BCPS provided OI&M Services to BSLD as of the beginning date of this engagement, May 24, 2003, through March 31, 2004.</i>
<i>Operations</i>	<i>Through managed vendors as well as directly by BCPS employees as required.</i>	<i>BCPS provided OI&M Services to BSLD as of the beginning date of this engagement, May 24, 2003, through March 31, 2004.</i>
<i>Maintenance</i>	<i>Through managed vendors as well as directly by BCPS employees as required.</i>	<i>BCPS provided OI&M Services to BSLD as of the beginning date of this engagement, May 24, 2003, through March 31, 2004.</i>

Management indicated BST provided the following services to BSLD (Reference Table 2):

Table 2

Service	Description of OI&M Function	Date first provided to BSLD
<i>Problem Management (Operations)</i>	<i>Problem Management Trouble Isolation and Coordination services, including</i>	<i>BST services officially began May 1, 2005.</i>

Service	Description of OI&M Function	Date first provided to BSLD
	<i>trouble isolation, trouble tracking and coordination of customer selected vendors for break/fix services.</i>	
<i>Work Order Management (Operations, Installation & Maintenance)</i>	<i><u>Work Order Management</u> - handling provisioning requests, seeing these requests to closure and reporting the results back to BSLD.</i>	<i>BST services officially began May 1, 2005.</i>
<i>Remote Monitoring & Fault Management (Maintenance)</i>	<i><u>Remote Monitoring and Fault Management:</u> a. <i>Fault Detection</i> b. <i>Fault Isolation</i> c. <i>Fault Repair Coordination</i> d. <i>Trouble Ticket Management (Issue, Track, Report)</i> e. <i>Escalation Procedures</i></i>	<i>BST services officially began May 1, 2005.</i>

- b. We inquired of management whether or not any of the OI&M services are being performed by any section 272 affiliate on facilities either owned by BST or leased from a third party by BST. Management indicated,

" BellSouth Long Distance, Inc. (BSLD) does not provide OI&M to BST, nor did BSLD provide such services during the engagement period."

5. We inquired of management whether BST performs any research and development activities on behalf of the section 272 affiliate from June 1, 2003 through February 28, 2005. Management indicated,

"BST does not perform or offer R&D services to section 272 affiliates."

We inquired of management whether or not R&D service is offered and/or has been performed when requested by unaffiliated entities. Management indicated,

"BST does not perform or offer R&D services to unaffiliated entities."

Management also indicated the following:

- *"BellSouth Technology Assessment Center ("BTAC") [a BST facility] still do testing for BSLD on a commercial basis. Just as in the past, this work is oriented around assessment of equipment and the inherent services and functions developed by the suppliers of that equipment. BTAC do not see this work as research and development."*
- *"BellSouth Affiliate Services Corporation ("BASC") [a subsidiary of BellSouth Corporation] does still provide limited R&D "retainer" services to BSLD. Consultations did occur in the period from June 1, 2003 to February 28, 2005. The consultations involved Voice over IP architecture."*

6. We obtained the balance sheet and detailed fixed asset listing, including capitalized software, as of February 28, 2005 for BSLD. We compared the fixed asset balances in the balance sheet to the totals listed in the detailed fixed asset listings and noted the fixed assets amount in the balance sheet was \$567,537.63 more than the total amount in the detailed fixed asset listing. We inquired of management and management indicated the difference was attributed to clearing account amounts included in the balance sheet but not in BSLD's asset management system. The clearing accounts were for assets that the company has yet not entered into the detailed fixed asset listing due to timing.

We scanned the detailed fixed asset listings for the section 272 affiliate to verify that the detailed listing included a description and location of each item, date of purchase, price paid, price recorded, and from whom purchased or transferred. We inquired of management and management indicated that the "current cost" on the listing represents "price paid" and "price recorded", the "general ledger amount" on the listing represents "the price recorded." Management also indicated that no items were purchased from or transferred to BST since May 24, 2003.

From a population of 207 items in the detailed fixed asset listing and the clearing accounts that were acquired since May 24, 2003, we selected a random sample of 80 transmission and switching facilities. We requested the title and/or other documents, which reveal ownership, for the sample selected. Management provided invoices and where applicable, the supporting reconciliations to the amount stated on the detailed fixed asset listings, as support for ownership. We noted the following:

- For 45 of 80 items, we noted that the assets were billed to the Section 272 affiliate.
 - 20 of the 45 items were shipped to a BST location.
 - 25 of the 45 items were shipped to a BSLD location.
- For 35 of 80 items selected, we noted the following:
 - For 9 of 35 items were billed to BCPS with a BSLD shipping address.
 - For 19 of 35 items were billed to BCPS with a BST shipping address.

- For 1 of 35 items were billed to BST with a BST shipping address.
- For 6 of 35 items, we noted two separate entities being invoiced. For 1 of 6 invoices, the entities invoiced were BCPS and BST. For 5 of 6 invoices, the entities were BSLD and BCPS.
- For 25 of 80 items, we compared the invoice amounts to the amounts recorded in the fixed asset detail, and noted no exceptions.
- For 55 of 80 items, we noted the amount recorded in the fixed asset detail did not agree to the invoice amount. We inquired of management and management indicated the following explanations:
 - For 39 of 55 items, the difference was due to capitalized interest.
 - For 4 of 55 items, the difference was due to capitalized sales and use tax.
 - For 5 of 55 items, the difference was due to both capitalized sales and use tax and capitalized interest.
 - For 5 of 55 items, the difference was due to certain items in the invoice were coded to different accounts.
 - For 1 of 55 items, the difference was due to certain amounts in the invoice were recorded to capitalized hardware and capitalized software.
 - For 1 of 55 items, the difference was due to an overpayment by BSLD.

Objective II: Determine whether the separate affiliate required under Section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell Operating Company (BOC).

1. We requested BSLD's general ledger as of February 28, 2005. We obtained the trial balance maintained for BSLD as of February 28, 2005. We compared the title on the trial balance with the name on the Certificate of Merger for BCPS and BSLD and the Certificate of Merger for BSE and BSLD and noted no differences.

We noted no special codes that may link BSLD's trial balance to the trial balance of BST.

2. We obtained the section 272 affiliate's balance sheet and income statement as of February 28, 2005.
3. We obtained and inspected BSLD's listings of lease agreements for which the section 272 affiliate is either the lessor or lessee, as of February 28, 2005. We identified a population of three leases where the annual obligation was \$500,000 or more. For the three leases with an annual obligation of \$500,000 or more, we obtained the lease agreements and noted the terms and conditions.

We obtained BSLD's "FAS 13 Analysis of Lease Agreements", which was prepared to help determine the accounting treatment, capital or operating, for the lease. Based on the analysis, it appears the leases were recorded in accordance with accounting principles generally accepted in the United States of America ("GAAP").

We obtained and inspected the BellSouth Corporation Financial Accounting policy related to leases. We noted the lease accounting policy appears consistent with GAAP.

Objective III: Determine whether the separate affiliate required under Section 272 of the Act has officers, directors, and employees that are separate from those of the Bell Operating Company (BOC).

1. We inquired of management and management indicated that BSLD and BST maintain separate boards of directors, separate officers, and separate employees.

We obtained a list of directors' and officers' names for BSLD and BST, including the dates of service for each Board member and officer from May 24, 2003 to May 23, 2005. We compared the list of directors' and officers' names for BSLD and BST for the engagement period and noted no individual who appeared on both lists as a director or officer for BSLD and BST simultaneously.

2. We obtained a list of names and social security numbers of employees of the section 272 affiliate and of BST for the period from May 24, 2003 through May 23, 2005. We designed and executed a program, which compared the names and social security numbers of the employees on the section 272 list to the names and social security numbers of the employees on the BST list. We noted 70 individuals whose names appeared on both BSLD's and BST's lists of which 12 individuals were on BSLD and BST's list during the same pay period.

We inquired of management as to the reasons for the names appearing on both lists during the same pay period. We obtained detailed employment histories and payroll records for the 12 individuals. We compared the 12 employees' termination dates per the payroll records of their former employer to the commencement date of their new employer's payroll records. We noted that the 12 individuals were terminated from the prior employer and re-hired into the new employer on the same day.

Objective IV: Determine that the separate affiliate required under Section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell Operating Company (BOC).

1. We requested from management copies of BSLD's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services entered into or modified during the Engagement Period. Major suppliers are those having \$500,000 or more in annual sales as stated in the agreement. The Controller of BSLD indicated,

"BSLD had no debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services entered into or modified during May 24, 2003 through May 23, 2005."

2. We obtained the lease agreements where the annual obligation is \$500,000 or more used in Objective II, Procedure 3. We read the lease agreements and noted no language in the agreements indicating recourse to BST assets, either directly or indirectly through another affiliate.
3. We requested written confirmations from lessors for leases maintained by BSLD in excess of \$500,000 in annual obligations to confirm lack of recourse to BST assets. BSLD had one lease that was in excess of \$500,000 in annual obligations and no leases that were less than \$500,000 in annual obligations that were entered into or modified during the engagement period. There were no debt instruments or credit arrangements entered into or modified during the engagement period. We received the response from the one lessor confirming they did not have recourse to BST assets.

OBJECTIVE V: Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the Bell Operating Company (BOC) on an arm's length basis with the transactions reduced to writing and available for public inspection.

OBJECTIVE VI: Determine whether or not the Bell Operating Company (BOC) has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

1. We obtained from management the procedures used by BST to identify, track, respond, and take corrective action on competitors' complaints with respect to alleged violations of the section 272 requirements. Management indicated the following:

Table 3

<i>Section 272 Complaints Filed at the State Commissions</i>
<ul style="list-style-type: none"> • <i>Complainant must serve BellSouth with a copy of complaint being filed at State Commission.</i> • <i>State Regulatory or State Legal office (varies by state) transmits the complaint to HQ Regulatory and HQ Legal.</i> • <i>HQ Regulatory confirms date BellSouth must respond to complaint based on specific State Commission rules.</i> • <i>Regulatory Docket Manager logs complaint on Section 272 complaint matrix (attached) and ensures that status of complaint is updated throughout the docket process.</i> • <i>Regulatory Docket Management identifies appropriate Subject matter Experts (SMEs) based on issues in the complaint and electronically distributes complaint to those SMEs.</i> • <i>Strategy meetings (held by Regulatory and Legal) are scheduled with appropriate SMEs and held to determine BellSouth position and to gather facts on allegations. Information from these meetings is used for input into complaint response.</i> • <i>Based on the input from the SME team, Legal drafts a response to the complaint.</i> • <i>Regulatory distributes draft complaint response to SME team for review and update by Legal as necessary.</i> • <i>Regulatory sends final response to State Regulatory/Legal for filing with State Commission and service to the appropriate parties of record.</i> • <i>Regulatory distributes filed response to SME team.</i> • <i>If issues are unresolved and state commission establishes schedule for the complaint, Docket Management schedules strategy meetings (with Legal, Regulatory and SMEs) to select appropriate witnesses and discuss preparation of any required testimony.</i> • <i>If testimony required, appropriate SME/Legal assignments are communicated so that</i>

<i>Section 272 Complaints Filed at the State Commissions</i>
<p><i>testimony drafts are prepared, reviewed and timely filed with the state commissions.</i></p> <ul style="list-style-type: none"> • <i>Once hearing process is complete and Commission renders decision, State Regulatory Docket Management receives and electronically distributes Commission decision (order) to SME team.</i> • <i>Appropriate meetings are scheduled to discuss any BellSouth action required by the Commission order and to ensure appropriate SME or organizations are charged with implementation responsibility.</i>

Table 4

<i>Section 272 Complaints Filed at the Federal Communications Commission</i>
<ul style="list-style-type: none"> • <i>BellSouth DC receives complaint from the FCC.</i> • <i>Complaint is logged.</i> • <i>Complaint is distributed to BellSouth Legal and Regulatory.</i> • <i>Regulatory logs complaint on Section 272 complaint matrix, if applicable, and ensures that status of complaint is updated throughout the docket process.</i> • <i>Regulatory identifies applicable Subject Matter Experts (SMEs) and distributes complaint to each SME. Regulatory, Legal, and SMEs form Docket Team to respond to Complaint.</i> • <i>Regulatory collaborates with legal counsel regarding BellSouth position.</i> • <i>Regulatory conducts a Docket Team meeting to develop BellSouth position and to gather input for complaint response.</i> • <i>SMEs provide additional input and material to Regulatory.</i> • <i>Regulatory works with legal counsel to prepare response outline and forwards supporting documentation to legal for preparation of response.</i> • <i>Legal drafts response and Regulatory distributes to SMEs for feedback for finalization of the response.</i> • <i>Response to complaint is filed with FCC by BellSouth DC.</i> • <i>BellSouth complies with the Commission's rules set forth in 47 C.F.R. for complaints and follows the process above in developing any other complaint responses.</i> • <i>If the complaint is not settled and Commission renders decision, Regulatory distributes Commission decision (order) to SME team.</i> • <i>Appropriate meetings are scheduled to discuss any BellSouth action required by the Commission order and to ensure appropriate SME or organizations are charged with implementation responsibility.</i>

We obtained from BST a list of FCC formal complaints, as defined in 47 CFR 1.720, FCC informal complaints, as defined in 47 CFR 1.716, and any written complaints made to a state regulatory commission from competitors either involving the provision or procurement of goods, services, facilities, and information, or involving the establishment of standards which were filed from May 24, 2003 through May 23, 2005. The list also included outstanding complaints from the prior engagement period, May 24, 2002 through May 23, 2003, which had not been resolved during that period. This list categorizes the complaints as follows:

- Allegations of cross-subsidies (for Objectives V and VI);
- Allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information ("CPNI")), or the establishment of standards (for Objective VII);
- Allegations of discriminatory processing of orders for, and provisioning of, exchange access, exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);
- Allegations of discriminatory availability of exchange access facilities (for Objective IX);
- Allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, we inquired of management and read documentation to determine how many of the complaints were under investigation, how many complaints had been resolved, and in what time frame they had been resolved. For those complaints that had been resolved, we inquired of management how those allegations were concluded, and if the complaint was upheld, what steps the Company has taken to prevent those practices from recurring. Management indicated the following:

- For Objectives V/VI and VII, there was one outstanding complaint from the prior engagement period, which had not been resolved during that period, filed with the FCC. This complaint is summarized in Table 5, Complaint No. 1 and Table 6, Complaint No. 1 below.
- For Objectives V/VI and IX, there was one complaint filed with the Florida Public Service Commission that originated during the current engagement period. This complaint is summarized in Table 5, Complaint No. 2 and Table 7, Complaint No. 2.
- There were no complaints filed applicable to Objective VIII or Objective XI.
- For Objective IX, there was one complaint filed with the FCC that originated during the current engagement period. This complaint is summarized in Table 7, Complaint No. 1 below.
- For Objective IX there were two outstanding complaints from the prior engagement period, which had not been resolved during that period. The first complaint was dismissed by the Florida Public Service Commission (Reference Table 7, Complaint No. 3 below). The second complaint was settled with the Tennessee State Commission (Reference Table 7, Complaint No. 4 below).

Table 5

Objective V/VI						
No.	Type	Case No.	Complaint	Reason for Complaint	Conclusion	Time Frame for Resolution
1* [#]	FCC	EB-03-MDIC-0414	Americatel	<p>BellSouth and BSLD appear to be in violation of applicable laws, rules and policies:</p> <ul style="list-style-type: none"> • BellSouth appears to be discriminating in its procurement of long distance services in favor of BSLD • BellSouth may not be dealing with BSLD on an “arm’s length” basis • BellSouth appears to be using its purchases of long distance service from BSLD to channel funds to BSLD and to unfairly compete in retail long distance market • High revenue contributions from local service packages may also be subsidizing very low international toll rates • BSLD’s long distance rates may not be fully compensatory • BSLD has placed an unreasonable restriction on resale of its services • BellSouth and BSLD’s packaging of local and discounted international services may be anti-competitive. 	This complaint was closed with no Enforcement Bureau action per a 6/23/2003 Enforcement Bureau letter.	04/11/2003 – 06/23/2003

Objective V/VI						
No.	Type	Case No.	Complaint	Reason for Complaint	Conclusion	Time Frame for Resolution
2 [#]	State - FL	031046-TP	AT&T	AT&T alleged: <ul style="list-style-type: none"> • Anti-competitive pricing of long distance service related to the BellSouth Saving Plan Promotion #31(the 1-cent promotion). • The 1-cent plan is contrary to Florida law because it allows BellSouth and its affiliate; BSLD, to sell long distance service to consumers at a price that does not cover the direct cost AT&T and other IXC's must pay to provide like services by virtue of the unreasonably high rates BellSouth charges for intrastate switched access services. 	On 7/6/2004, AT&T requested to voluntarily withdraw its complaint petition. The Florida commission granted the request to withdraw.	11/12/2003 – 07/06/2004
* Applies to both Objectives V/VI and VII ^ Applies to both Objectives V/VI and IX # Outstanding complaint from prior engagement period which was not resolved during that period						

Table 6

Objective VII						
No.	Type	Case No.	Complaint	Reason for Complaint	Conclusion	Time Frame for Resolution
1 ^{*#}	FCC	EB-03-	Americatel	BellSouth and BSLD appear to be in violation of applicable laws, rules and	This complaint was closed with no Enforcement Bureau action	04/11/2003 –

Objective VII						
No.	Type	Case No.	Complaint	Reason for Complaint	Conclusion	Time Frame for Resolution
		MDIC-0414		<p>policies:</p> <ul style="list-style-type: none"> • BellSouth appears to be discriminating in its procurement of long distance services in favor of BSLD • BellSouth may not be dealing with BSLD on an “arm’s length” basis • BellSouth appears to be using its purchases of long distance service from BSLD to channel funds to BSLD and to unfairly compete in retail long distance market • High revenue contributions from local service packages may also be subsidizing very low international toll rates • BSLD’s long distance rates may not be fully compensatory • BSLD has placed an unreasonable restriction on resale of its services • BellSouth and BSLD’s packaging of local and discounted international services may be anti-competitive 	per a 6/23/2003 Enforcement Bureau letter.	06/23/2003
<p>* Applies to both Objectives V/VI and VII</p> <p># Outstanding complaint from prior engagement period which was not resolved during that period</p>						

Table 7

Objective IX						
No.	Type	Case No.	Complaint	Reason for Complaint	Conclusion	Time Frame for Resolution
1 [#]	FCC	EB-04-MD-010	AT&T	<p>BellSouth appears to be in violation of Section 272 of the Communications Act as follows:</p> <p>BellSouth appears to be discriminating in providing facilities, services or information concerning its provision of exchange access to BSLD versus any other entity.</p>	<p>In its Memorandum Opinion & Order released 12/9/04, the FCC found that BellSouth's Transport Savings Plan (TSP) Tariff violates Sections 272(c)(1) and 272(e)(3) of the Act by discriminating in favor of BSLD.</p> <ul style="list-style-type: none"> • The TSP's disproportional discounts discriminate in favor of BSLD, in violation of section 272. • The TSP's 90% commitment requirement discriminates in favor of BSLD in violation of Section 272. <p>In accordance with the FCC's Order, on 12/16/04, BST filed an FCC No. 1 Tariff revision to eliminate the ability for TSP customers to renew or automatically extend their existing TSP arrangements.</p>	Filed 07/01/2004 – status open

Objective IX						
No.	Type	Case No.	Complaint	Reason for Complaint	Conclusion	Time Frame for Resolution
					<p>This revision was effective 12/31/04.</p> <p>The FCC further ordered that BST shall terminate its TSP Tariff through a tariff revision filed in compliance with relevant requirements of the Commission's rules, effective June 9, 2005. This revision was effective on 3/31/05.</p> <p>On January 10, 2005, Sprint Communications Co., L.P., filed a Petition for Reconsideration with the FCC.</p>	
2 [^] #	State - FL	031046-TP	AT&T	<p>AT&T alleged:</p> <ul style="list-style-type: none"> • Anti-competitive pricing of long distance service related to the BellSouth Saving Plan Promotion #31(the 1-cent promotion). • The 1-cent plan is contrary to Florida law because it allows BellSouth and its affiliate; BSLD, to sell long distance service to consumers at a price that does not cover the direct cost AT&T and other IXC's must pay to provide like 	<p>On 7/6/2004, AT&T requested to voluntarily withdraw its complaint petition. The Florida commission granted the request to withdraw.</p>	11/12/2003 – 07/06/2004

Objective IX						
No.	Type	Case No.	Complaint	Reason for Complaint	Conclusion	Time Frame for Resolution
				services by virtue of the unreasonably high rates BellSouth charges for intrastate switched access services.		
3 [#]	State - FL	020738-TP	AT&T	AT&T alleged BellSouth's tariff was a "growth" tariff designed to provide discounts based on incremental local switching usage that discriminates in favor of BSLD with its initially small number of access lines and against IXC's such as AT&T which are experiencing declining access MOU volumes.	During the previous 272 audit Engagement Period, this complaint was awaiting a procedural schedule from the Florida Public Service Commission ("FPSC"). Since that time, on 8/20/03 AT&T requested to voluntarily withdraw the complaint petition. The FPSC issued an order on 9/22/03 dismissing the petition and closing the docket.	07/16/2002 – 09/22/2003
4 [#]	State - TN	02-01073	CLEC Coalition	BST's tariff permits only some IXC's to pay access charges at a discounted rate. The CLEC Coalition alleged that the tariff was designed to benefit a single IXC, giving that carrier a competitive advantage.	During the last 272 Audit engagement period, BellSouth's tariff had been suspended pending negotiations. The parties reached a settlement and on 7/3/03 BellSouth withdrew the subject tariff. BellSouth filed a new tariff on 7/30/03 that was approved by the Tennessee Regulatory Authority ("TRA") order on 9/12/03.	10/07/2002 – 09/12/2003

Objective IX						
No.	Type	Case No.	Complaint	Reason for Complaint	Conclusion	Time Frame for Resolution
^ Applies to both Objective V/VI and IX # Outstanding complaint from prior engagement period which was not resolved during that period						

2. We obtained BST's and BSLD's current written procedures for transactions with affiliates and compared these procedures with the FCC Rules and Regulations indicated as "standards" in the General Standards Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended. We noted BST's and BSLD's written procedures included the FCC Rules and Regulations indicated as standards above except for the following:

"Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265; see also C.F.R. 61.45(d)(1)(v))."

This standard could not be located in the Company's written procedures.

3. We inquired and documented how BST and BSLD disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules. Management indicated,

"BST's Federal Financial Compliance Group ("FFCG") is responsible for affiliate transactions training for the entire corporation. BST's Regulatory and External Affairs Group ("R&EA") is responsible for the development of official corporate Section 272 compliance training for all employees. BSLD's Business Implementation & Compliance Group ("BICG") provides input to the Section 272 compliance training from a BSLD perspective."

Literature Distributed

Employees of both BST and BSLD are provided with written documentation on the affiliate transaction policies. The BSLD finance department and the FFCG maintain separate intranet sites that contain the BellSouth Corporate Financial Accounting Policy on affiliate transactions. BST's policy governing transactions between BellSouth's affiliated entities is recorded in Functional Policy 3.1. BellSouth's Corporate Compliance organization also administers general employee awareness programs through such vehicles as BellSouth's NewsSource. Additionally, there are ongoing awareness campaigns at both BST and BSLD to emphasize regulatory compliance. These include employee handbooks, officer letters and newsletters.

Training

The two primary training courses used are:

Affiliate Transactions Policy Training

Affiliate Transaction Policy Training (Affiliate Transactions Training) includes an overview of the Telecommunications Act of 1996, identification of a section 272 affiliate, the structural,

accounting and non-discriminatory compliance requirements, and rules surrounding information sharing and joint marketing.

For BST, beginning in 2003, the on-line version of Affiliate Transactions Training is required of all active PG 58 managers and above, and designated employees below this level. Live courses are also offered on an "as requested" basis and for certain targeted audiences. For BSLD, on-line Affiliate Transactions Training is required for all managers and designated additional personnel. Live training is offered on an "as requested" basis.

Section 272 Compliance Training

The Section 272 Compliance Training (Section 272 Training) is administered online, via hard copy, and/or in-person and covers the Section 272 requirements that govern the relationship between BSLD and BST, and the importance of compliance with these requirements. Section 272 Training is required annually for all BellSouth employees. For any new customer operations unit employee (including BSLD), Section 272 Training is included in the initial training package and must be completed prior to engaging in any activity involving the BST/BSLD relationship. Records of all employee training are retained and monitored to ensure completion on a timely basis.

The Section 272 training was completely rewritten in 2003 to expand the course content and, in compliance with BellSouth's July 15, 2003 Consent Decree, make the training "more focused on the operational working relationship between BST and BSLD" and to require a Mastery Test. The training was rolled out in September of 2003 and the annual training was completed by December 31, 2003. BellSouth updated the training in 2004 to manage a concern expressed in BellSouth's initial Section 272 audit and to reflect the OI&M order adopted by the FCC on March 11, 2004. Training for the current year is scheduled for the last half of 2005, and no major changes are currently anticipated.

Employee Policy

It is BellSouth's policy that all employees are required to complete Section 272 Long Distance training annually. Employees of BST and BSLD may also obtain information about Section 272 compliance from their respective regulatory and legal staffs. Affiliate Transaction training is required of all new employees in the targeted audience, and training for the entire targeted audience is repeated periodically.

Supervisor Policy

FFCG and the BICG oversee compliance with FCC rules and regulations at BST and BSLD, respectively. In addition, many business units that enter into affiliate transactions have a compliance officer on staff with direct contact with FFCG and/or BICG. Both BST and BSLD employees responsible for affiliate transactions receive the names of affiliate transaction subject matter experts via the web-based training, the intranet, and various awareness campaigns. Contact information is also included in the Section 272 training.

Additional Information

In addition to the above, BellSouth's Process for Section 272 Transactions is included on both the BellSouth Corporate Internet website: www.bellsouthcorp.com and on the BellSouth intranet site."

We obtained a listing of 34 employees who are responsible for developing and recording affiliate transactions costs in the books of various affiliates of BellSouth Corporation. We judgmentally selected 12 employees to interview to determine their awareness of FCC Rules and Regulations governing affiliate transactions. Based on the procedures performed, it appears that the individuals selected were aware of the FCC rules and regulations governing affiliate transactions and received training and supervision with respect to these rules. The employees interviewed had the following job titles:

- Product Marketing Manager (BCS)
- Manager (Managed Network Solutions)
- Project Manager (BBI), Billing Manager (BASC)
- Specialist (BARM, BCCS), Manager (BSLD)
- Processing Manager (BASC)
- BST CRES Manager (Sunlink)
- Accountant Manager (BLS Entertain)
- Accountant (BIS DC, Inc.)
- Director (BIPM)
- Assistant Controller (BSLD Finance)

Employees responsible for affiliate transactions receive the following types of supervision, as applicable based on their job description:

- Affiliate transactions training
- Applicable guidance from the Regulatory Group
- Applicable guidance from the FFC group
- Applicable guidance from the Director of Federal Financial Compliance
- General guidance from supervisors

4. (a) We obtained a listing of 36 written agreements, including their corresponding 37 amendments and 7 addendums, for services and for interLATA and exchange access facilities between BST and BSLD which were in effect from June 1, 2003 through February 28, 2005 (Table 8). For those agreements which were no longer in effect as of February 28, 2005, we indicated the termination date (Table 9). We also identified agreements that were terminated prematurely from June 1, 2003 through February 28, 2005 (Table 10).

Table 8

Agreements in effect during the Audit Test Period				
No.	Agreement	Effective Date	Expiration Date	Termination Date
1	Agreement by and between BST and BSE (Interconnection)	08/22/2003	09/20/2006	N/A
2	Agreement by and between BST and BSLD for purchase of Resale, Interconnection, Unbundled Network Elements & Collocation for the states of LA & TN	12/07/2004	01/05/2008	N/A
3	Agreement for Services No. 030019SH	02/11/2004	02/12/2007	N/A
4	Agreement of Service No. PCM71604	10/05/2004	09/30/2006	N/A
5	Agreement for Special Assembly Services No. 030018SH between BST and BSE	02/11/2004	02/12/2007	N/A
6	BellSouth VOIP Conversion Service Agreement	05/10/2004	05/10/2006	N/A
7	BellSouth Wavelength Dedicated Ring Service Provisioning Test	01/31/2005	Expiration of contract is on or about 03/31/2005	N/A
8	Billing and Collection Services Package Clearinghouse Operating Agreement	03/05/2003	02/28/2006	N/A
9	Collocation Agreement	10/01/2003	10/30/2006	N/A
10	Coordination Agreement	02/01/2001	Thirty (30) days written notice	N/A

Agreements in effect during the Audit Test Period				
No.	Agreement	Effective Date	Expiration Date	Termination Date
11	Joint Message Ready-Unbillable Study Letter of Agreement	04/27/2003	A minimum of 12 months from the effective date	N/A
12	Labor Contract Negotiations and Support Services Agreement	08/29/2002	12/31/2005	N/A
13	Local Carrier Services Center Services Agreement	10/09/2002	This agreement is indefinite, with a 60 day cancellation for convenience clause	N/A
14	Marketing and Sales Agreement	05/02/2002	05/02/2006, with yearly extensions unless terminated by one or both of the parties	N/A
15	Mechanized Automated Message Accounting Testing & Validation Coordination Agreement	04/15/2004	This Agreement will continue in effect until BST has completed and delivered to BSLD all testing and reporting services described herein, unless terminated by either party upon thirty (30) days written notification or replaced by another agreement	N/A
16	Network Management Memorandum of Understanding	03/14/2003	No end date	N/A
17	Professional Services Agreement	11/05/2003	11/04/2005	N/A
18	Provision of BellSouth National Directory Assistance Services	01/27/2004	07/31/2007	N/A
19	Purchase Agreement No. 030010SH for Products and Services	11/18/2003	12/31/2006	N/A

Agreements in effect during the Audit Test Period				
No.	Agreement	Effective Date	Expiration Date	Termination Date
20	Regulatory, Legal, and Other Services Agreement	04/01/2002	May be terminated by either party upon (60) days' written notice	N/A
21	Sales Agreement	02/04/2005	No end date	N/A
22	Services Agreement	06/30/2003	Not applicable	N/A
23	Slamming Investigation and Reporting Services Agreement	04/09/2002	06/30/2005	N/A
24	Subscription Fraud Information Sharing Agreement	09/24/2001	The term will continue until terminated by either Party upon 30 days written notice to the other party	N/A
25	Tariffed Services	Various	Ongoing	N/A
26	Trouble Reporting and Referral Services Agreement	08/15/2003	08/15/2008	N/A

Table 9

Agreements in effect during the Audit Test Period which are terminated				
No.	Agreement	Effective Date	Expiration Date	Termination Date
1	Contract Provisions for BSLD Daily Usage File	04/16/1998	06/28/2003	06/28/2003
2	End to End Test Agreement	06/12/1997	06/15/2003	06/15/2003
3	InterLATA End-to-End Test Agreement	06/13/2000	06/15/2003	06/15/2003
4	Physical Collocation Master Agreement	09/18/2001	10/31/2003	10/31/2003
5	Provision of National Directory Assistance Agreement	07/31/2000	01/31/2004	01/31/2004

Agreements in effect during the Audit Test Period which are terminated				
6	Trouble Reporting and Referral Services Agreement for Toll Free Services	08/18/1998	08/17/2003	08/17/2003
7	Affiliate Long Distance Service Agreement	02/01/2001	12/31/2003	12/31/2003

Table 10

Agreements in effect during the Audit Test Period which terminated prematurely					
No.	Agreement	Effective Date	Expiration Date	Termination Date	Reason for Termination
1	Facility use Agreement	06/30/1997	10/15/2008	06/30/2003	The Facility Use Agreement was terminated in order to implement a new Agreement between BST and BSLD
2	IntraLATA Toll Resale Agreement	03/25/2002	03/25/2005	06/28/2003	The IntraLATA Toll Resale Agreement was terminated because BSLD made a decision to no longer resell BST services
3	Workcenter Interface Agreement	11/04/1998	03/25/2005	06/28/2003	The Workcenter Interface Agreement was coupled with the IntraLata Toll Resale Agreement and therefore it was terminated

We inquired of BST regarding the provisioning of non-tariffed services without written agreements. Management indicated the following:

"It is BellSouth's policy to have a written agreement, whether by tariff or contract, in place for the provision of any transaction between BST and BSLD. For services purchased pursuant to tariff, the terms and conditions of the tariffs serve as written agreements. BSLD discloses to the public that it purchases tariffed services on the BellSouth internet site and at BST's place of business. The terms and conditions set forth in the tariffs have, by operation of law, the same force and effect as a contract."

(b) We obtained a listing of written agreements, amendments and addenda that became effective during the Audit Test Period. From the population of 16 agreements, 26 amendments, and 6 addendums (total of 48) that became effective during the Audit Test Period, we randomly selected 14 agreements, 25 amendments, and 6 addenda (total of 45). We obtained and included in our workpapers copies of the 45 items selected. We inquired of management and management indicated that copies of the written agreements, amendments, and addenda were located on the BellSouth website (www.bellsouthcorp.com/policy/transactions/).

5. Using the sample of agreements, amendments, and addenda obtained in Procedure 4b, we printed copies of the website disclosure for each of the 45 items. We compared the prices, terms and conditions of services between the web postings and the 14 agreements, 25 amendments, and 6 addenda provided in Procedure 4 above and noted the following:

- We noted no differences between the website disclosures and the 14 agreements.
 - For 13 of 14 agreements, we compared prices, terms, and conditions.
 - For 1 of 14 agreements, we compared terms and conditions. The prices section in the web disclosures noted (Reference Table 11):

"Fees for testing services and producing Test Reports will be governed by individual SOW's."

Table 11

No.	Agreement
1	Services Agreement

- We noted no differences between the website disclosures and the 25 amendments.
 - For 6 of 25 amendments, we compared prices, terms, and conditions.
 - For 18 of 25 amendments, we compared terms and conditions. The prices section in the web disclosures noted (Reference Table 12):

"Pricing elements are contained in the respective Attachments as Exhibits to the Attachments."

We inquired of management and management indicated the pricing information were located in the original agreements.

Table 12

No.	Amendment
1	Agreement By and Between BST and BSE - Amendment 2
2	Agreement By and Between BST and BSE - Amendment 3
3	Agreement By and Between BST and BSE - Amendment 4
4	Agreement By and Between BST and BSE - Amendment 5
5	Agreement By and Between BST and BSE - Amendment 6
6	Agreement By and Between BST and BSE - Amendment 7
7	Agreement By and Between BST and BSE - Amendment 8
8	Agreement By and Between BST and BSE - Amendment 10
9	Agreement By and Between BST and BSE - Amendment 11
10	Agreement By and Between BST and BSE - Amendment 12
11	Agreement By and Between BST and BSE - Amendment 13
12	Labor Contract Negotiations and Support Services Agreement - Amendment 2
13	Labor Contract Negotiations and Support Services Agreement - Amendment 3
14	Marketing and Sales Agreement - Amendment 4
15	Regulatory, Legal, and Other Services Agreement - Amendment 5
16	Trouble Reporting and Referral Services Agreement - Amendment 1
17	Agreement By and Between BST and BSE - Amendment 9
18	Agreement By and Between BST and BSE - Amendment 14

- For 1 of 25 amendments, we compared the prices. The terms and conditions section on the web disclosure noted (Reference Table 13):
"Same as Original Agreement"

Table 13

No.	Amendment
1	Regulatory, Legal, and Other Services Agreement - Amendment 4

- We noted no differences between the website disclosures and the 6 addenda.

We visited the only location where agreements are made available for public inspection to determine whether the same information in the written agreements obtained in Procedure 4 is made available for public inspection at the principal place of business. We noted no differences.

We documented the signature dates and posted to the Internet dates for the sampled agreements, amendments and addenda. We compared the signature date to the post date and noted the following:

- 1 amendment was not posted to the website within a ten day timeframe. We inquired of management as to the reasons for the apparent late posting and management indicated (Reference Table 14):

Table 14

No.	Agreement/Amendment	Signature Date	Post Date
1	Purchase Agreement No. 030010SH for Products and Services	11/18/2003	12/01/2003

“BellSouth initially submitted a request to its vendor to post Agreement No. 030010SH to its internet site on 11/20/03. A second request for internet posting was submitted on 11/24/03. BellSouth Long Distance offices were closed for Thanksgiving holidays on Thursday, 11/27/03 and Friday, 11/28/03. The following Monday, 12/1/03, BellSouth contacted its vendor by phone and e-mail regarding the posting of this Agreement. The Agreement was posted on 12/1/03, following the phone call from BellSouth Long Distance. The vendor responded that, due to problems with its mail server, it had not received the initial request sent on 11/20/03 nor the subsequent request on 11/24/03. The vendor has upgraded its server to prevent future problems of this type. Additionally, BellSouth Long Distance revised its “Internal Process for Posting and Relocating Section 272 Transactions to and within the BellSouth Public Policy Transaction Internet Site” to include a directive that “if the confirmation e-mail is not received by the specified posting deadline, the Contract Manager contacts the vendor by phone requesting an immediate posting.”

We documented in the workpapers the company's procedures for posting these agreements, amendments, and addenda on a timely basis.

We read the web disclosures for the following items to allow for sufficient evaluation for compliance with accounting rules (CC Docket No. 96-150, Report and Order, para. 122):

- Description of rates, terms and conditions of all transactions
- Frequency of recurring transactions
- Approximate date of completion
- For asset transfers, the quantity and, if relevant, the quality of the transferred assets
- Number and type of personnel assigned to the project
- The level of expertise of such personnel (including associated rate per service unit)
- Disclosure of any special equipment used to provide the service and length of time required to complete the transaction
- If the agreement includes an hourly rate, whether that rate is fully-loaded, and if so does it include the cost of materials and all direct and indirect miscellaneous and overhead costs for goods and services provided at fully distributed cost

We noted that the web postings contained the required disclosures.

6. We obtained a listing and amounts of non-tariffed services rendered by month by BST to the section 272 affiliate from June 1, 2003 through February 28, 2005.
 - (a) We inquired of management and management indicated that all services on the list were made available to non-affiliated third parties.
 - (b) (1) For the services provided to both section 272 affiliates and non-affiliated third parties, we obtained a listing and amounts of non-tariffed services provided to BSLD. From this list, we identified the 10 services with the highest billing volume in dollars that were billed to the section 272 affiliate. The 10 services consisted of:
 - Billing and Collections
 - Marketing and Sales Agreement (Joint Marketing)
 - Collocation
 - BTAC Lab
 - Internal Systems Support Systems
 - Trouble Reporting and Referral Services
 - National Directory Assistance
 - Regulatory, Legal and Other Services
 - Subscription Fraud
 - Professional Services
 - (2) We randomly selected three non-consecutive months from June 1, 2003 through February 28, 2005 from all the states. The months selected were September 2003, January 2004, and

March 2004. For the ten “Highest Billing Volume Services”, we randomly selected 94 invoices from all the states during the selected months as follows:

- For 4 of the 10 services, we randomly selected 10 invoices for each service. The four services were Billing and Collection, Collocation, National Directory Assistance, and Subscription Fraud.
- 4 of the 10 services were billed only once a month. The four services were Trouble Reporting and Referral, Joint Marketing, BTAC, and Regulatory, Legal and Other. We randomly selected seven additional months to arrive at ten invoices for each service.
- 1 of the 10 services was billed only 4 times during the Audit Test Period. The service was Professional Services. We tested the 4 invoices available for that service.
- 1 of the 10 services was billed twice a month. The service was Internal Network Systems Support. We randomly selected two additional months to arrive at ten invoices.

For each invoice, we compared the billing rates in the invoice to the rates on the associated contract. We noted the following:

- For 83 of 94 invoices we noted no differences.
- For 2 of 94 invoices, it appears there is a difference between the billed late payment charge (“LPC”) calculation and the contracted LPC calculation. The two invoices were for Billing and Collection and Professional Services.
 - For 1 of 2 invoices, it appears there is a difference between the billed LPC calculation of \$0.43 and contracted LPC calculation of \$0.25. The invoice was for Billing and Collection.
 - For 1 of 2 invoices, it appears there is a difference between the billed LPC calculation of \$85.13 and contracted LPC calculation of \$76.13. The invoice was for Professional Services.
- For 1 of 94 invoices, it appears there is a difference between the billed rate of \$100 for USOC PE1BB and the contracted rate of \$0.00. The invoice was for Collocation service.
- For 3 of 94 invoices, it appears there is a difference between the billed rate of \$.275 per directory assistance (“DA”) call and the contracted rate of \$.24 per DA call. The three invoices were for National Directory Assistance service. [Management indicated that this error had been found previously, and was corrected in July, 2004.](#)
- For 5 of 94 invoices, it appeared there was a difference between the billed rate of \$250 per hour and the contracted rate of \$200 per hour. The five invoices were for Regulatory, Legal and Other services. Management indicated this rate was corrected on the July 2005 invoice.

For each invoice, we requested for the supporting information to test the transaction was recorded as revenue by BST, the billed amount was paid by BSLD, and that the payment was recorded by BST. We noted the following:

- For 94 of 94 invoices, we noted the invoice was recorded as revenue by BST.
- For 90 of 94 invoices, we noted the billed amount was paid by BSLD.
- For 1 of 94 invoices, we noted the payment amount was \$36.77 less than the billed amount. The invoice was for Collocation service. Management indicated the difference was due to BSLD disputing the late payment charges on the invoice.
- For 1 of 94 invoices, we noted the payment amount was \$55.03 more than the billed amount. The invoice was for Trouble Reporting and Referral service. Management indicated the difference was due to BSLD not applying a negative Adjustment they actually added the adjustment to the current charges and paid the additional amount.
- For 1 of 94 invoices, we noted the payment amount was \$233,020.00 more than the current billed charges. The invoice was for the BTAC service. Management indicated the difference was due to BSLD paying the Balance Due which includes Current Billed Amount and Outstanding Balances.
- For 1 of 94 invoices, we noted the no payment was made because there was an outstanding credit balance on the account. The invoice was for the Billing and Collection service.
- For 20 of 94 invoices, we noted the payment method was through wire transfer.
- For 73 of 94 invoices, we noted the payment method was through check.
- For 1 of 94 invoices, we noted no payment was made due to an outstanding credit balance on the account. The invoice was for Billing and Collection service.

For each invoice, we requested for the supporting information to test the transaction was recorded as expense by BSLD and the same amount was paid by BSLD. We noted the following:

- For 94 of 94 invoices we noted no differences.

For the selected billing transactions, we requested the Prevailing Market Price (“PMP”), Fully Distributed Cost (“FDC”), and Fair Market Value (“FMV”) unit charges. Management indicated:

- *“CC Docket 96-150 ¶137 We do allow one exception to our [market rate] rule...Because the rates for services subject to section 272 must be generally available to both affiliates and third parties, we adopt a rebuttable presumption that these rates represent prevailing company prices.*
- *All sales by BST/BSLD transactions are at the prevailing market price (PMP/EFMV).*
- *PMP for BST’s joint marketing continues to be higher than FDC.”*

For each invoice, we read the contract summary posted and noted the following:

- 83 of 94 invoices were priced at either PMP or FMV.
 - 3 of 11 invoices were priced on a per state basis. The three invoices were for Collocation service.
 - 8 of 11 invoices were priced per the individual Statements of Work. The eight invoices were for BTAC service.
7. We read the listing obtained in Procedure 6 of services rendered by BST to BSLD from June 1, 2003 through February 28, 2005. We noted that there appears to be no OI&M services rendered by BST to BSLD from June 1, 2003 through February 28, 2005.

A&B. We inquired of management whether BST rendered any OI&M services to BSLD and management indicated:

“...for those services provided to BellSouth Long Distance, Inc. (BSLD) by BellSouth Telecommunications, Inc. (BST) under contractual agreements covered in the data response to Objective V/VI – Procedure 6 for the Audit Test Period of June 1, 2003 through February 28, 2005, none of the stated services included any Operation, Installation or Maintenance (OI&M) functions”

8. We obtained a listing and amounts of services rendered by month by each section 272 affiliate to BST from June 1, 2003 through February 28, 2005.
- (a) Management indicated that only two services, Corporate Communications and Voice over IP (“VoIP”) related services, were rendered by BSLD to BST from June 1, 2003 through February 28, 2005. We randomly selected the following three non-consecutive months during the Audit Test Period: June 2003, August 2003, and July 2004. We noted the following:

For the months selected, we obtained the Corporate Communications and VoIP invoices. We randomly selected 80 Corporate Communications and 20 VoIP billing transactions.

For the selected billing transactions, we requested the Prevailing Market Price (“PMP”), Fully Distributed Cost (“FDC”), and Fair Market Value (“FMV”) unit charges. Management indicated:

- *“CC Docket 96-150 ¶137 We do allow one exception to our [market rate] rule...Because the rates for services subject to section 272 must be generally available to both affiliates and third parties, we adopt a rebuttable presumption that these rates represent prevailing company prices.*

- *All sales by BST/BSLD transactions are at the prevailing market price (PMP/EFMV)."*

We noted that the entire sample was billed at fair market value.

We did not note any "chain" transactions.

We compared the amount BST recorded as expense and the amount paid to BSLD for the invoices containing the selected sample. The sample of 100 billing transactions were from 30 invoices. We noted the following:

- For 23 of 30 invoices, we noted no differences.
- For 7 of 30 invoices, we noted a credit balance.

(b) We compared the amount recorded as revenue in the books of BSLD and the amount BST paid for the invoices containing the selected sample. The sample of 100 billing transactions were from 30 invoices. We noted the following:

- For 10 of the 30 invoices, we noted no differences.
- For 7 of the 30 invoices, the invoices represented a total credit amount.
- For 6 of the 30 invoices, we inquired of management and management indicated the difference between the amount recorded in BSLD's books and the amount BST paid is due to taxes.
- For 4 of the 30 invoices, we inquired of management and management indicated the difference between the amount recorded in BSLD's books and the amount BST paid is due to adjustments and taxes.
- For 1 of the 30 invoices, we inquired of management and management indicated the difference is due to incorrect billing which was corrected in January 2004.
- For 2 of the 30 invoices, we inquired of management and management indicated the difference is due to incorrect billing caused by data entry errors amounting to \$.39.

9. We obtained from BSLD management the balance sheet and the detailed listing of fixed assets, including capitalized software, in Procedure 6 under Objective 1, as of February 28, 2005.

(a) We read the listing and noted that 17 items were added to the detailed listing of fixed assets since May 24, 2003. We also noted that none of the items were purchased or transferred directly from BST, rather they were purchased or transferred from another affiliate.

(b) For the 17 items purchased or transferred from another affiliate, we obtained a copy of the following:

- Original purchase order
- Sales and service order
- Detailed shipping and tracking report
- Lawson purchase order entry print screens
- Lawson invoice detail print screens

Based on our reading of the information noted above, it appears none of the items were originally transferred from BST to the other affiliate.

- (c) There were no items purchased or transferred from BST, whether directly or through another affiliate.

10. We requested from management a detailed listing of fixed assets which were purchased or transferred from each section 272 affiliate to BST since May 24, 2003 through February 28, 2005. Management indicated,

"There were no fixed assets which were purchased or transferred from any section 272 affiliate to BST from May 24, 2003 to February 28, 2005."

11. We obtained a list of billing telephone numbers ("BTN") that represented invoices by month by state from June 1, 2003 through February 28, 2005 where assets and/or services charged to a section 272 affiliate are priced pursuant to section 252(e). We randomly selected 100 billed transactions to compare the price BST charged the section 272 affiliate to the stated price in the publicly-filed agreements or statements and noted the following:

- For 92 of 100 transactions, we noted no exceptions.
- For 5 of 100 transactions, we noted rate differences of \$.11 and \$.15; We were unable to locate the rates in the 252 (e) agreements. Management indicated these rates were surcharges on a per access line basis assessed by state commissions or legislatures to fund dual party relay.
- For 2 of 100 transactions, we noted a rate difference of \$6.61, caused by a rate table database update that passed over existing customers. We inquired of management and management indicated that the problem has been corrected.
- For 1 of 100 transactions, we noted that the resale discount was not correctly applied to BSLD, which resulted in an overcharge of \$2.18.

We inquired of management and management indicated that there were no services priced pursuant to statements of generally available terms pursuant to section 252(f).

12. We inquired of management as to whether any part of BST's Official Services network was sold or transferred to BSLD at any time. Management indicated,

"BSLD has not bought or leased any facilities from BST's official communications network."

Objective VII: Determine whether or not the Bell Operating Company (BOC) has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities and information, or in the establishment of standards.

1. We requested from BST their written procurement procedures, practices, and policies. We obtained BST's written procurement process overview. We read the procurement process overview for any stated purchasing preferences and there appears to be no stated purchasing preferences towards the section 272 affiliate.

BST's written procurement process overview describes their bidding process, selection process, and how BST disseminates requests for proposals to affiliates and third parties. BST's procurement process overview states:

"In 2000, BellSouth created a consolidated Supply Chain Services organization (SCS). [SCS is a group at BellSouth Corporation and not a BST subsidiary or group.]

SCS is responsible for developing and managing BellSouth's sourcing decisions and supplier relationships. This includes such responsibilities as supplier selection, negotiation, execution, and signature authority of agreements, global purchasing agreements, master contracts and related matters. This policy ensures that we facilitate fair competition and consider all potential supply options by coordinating the determination of which suppliers participate in the process.

BellSouth utilizes a well-defined, 7-step procurement process (BellSouth Sourcing) to manage its sourcing decisions and supplier relationships.

BellSouth Sourcing is the accepted methodology for sourcing and consists of steps, activities, tasks, templates, and other documentation to support the sourcing process.

The following is a step-by-step description of BellSouth Sourcing seven steps:

Step #1 Profile the Supply Stream

In this step a Sourcing Manager (SM) creates a fact base about the supply stream. This step combines gathering of raw data, compiling the data into meaningful information, and analyzing the information to begin creating conclusions. The work done within this step is the basis for all other steps and for the decisions and strategies that will determine the sourcing approach. At the end of this step, the SM will have reviewed/analyzed the spend data, determined total cost of ownership, conducted client interviews to determine corporate needs/requirements and completed an industry analysis. The SM must define the value proposition in terms of quality, risk mitigation, service scope, service level, total costs, geographic footprint, technology, delivery, function/form/feature fit, etc.

Step #2 Selecting Sourcing Strategy

In this step, using the analysis completed in step #1, a SM and a support team (or sourcing team) will develop a sourcing strategy and related tactics for the supply stream that positions BellSouth in the best negotiation position possible. This strategy and related tactics includes selecting the most appropriate set of sourcing approaches and techniques for the supply stream. Additionally, the SM and the sourcing team will identify critical business elements, identify critical market elements (via Porter's Five Forces Model), and develop an appropriate sourcing strategy.

Step #3 Generate Supplier Portfolio

In this step, members of the sourcing team create a supplier portfolio of vendors by analyzing: (a) the authorized list of pre-qualified suppliers, (b) the industry and market analysis performed in the first two steps, and (c) the Supplier inquiries process by BellSouth's Vendor Relations group. The sourcing team must consider all diverse suppliers (e.g., minority owned, women owned, and disabled veteran owned business enterprises) that meet the basic requirements. The supplier portfolio will contain general company information such as location, contacts, and any available financials. A sourcing team may choose to conduct a Request-For-Information to determine fit/capabilities as part of the down-select process. The sourcing team must eliminate all potential companies that do not meet the core business requirements. Based on the defined requirements and criteria needed, the sourcing team will determine which of potential vendors in the supplier portfolio it should send a Request-For-Proposal (RFP).

Step #4 Select Implementation Path

In step #4, after a portfolio of potential & viable suppliers is completed, the appropriate implementation path can be selected. The evaluation of the supplier portfolio will provide the SM with knowledge of the Supplier candidates and their competitive position. In addition, use of the market analysis will help the SM to establish an implementation path. The evaluation of the supply stream may suggest that the appropriate supply stream technique may be a competitive bid. Alternatively, the evaluation may suggest that the appropriate supply stream technique resides in BellSouth creating an advantage, perhaps via direct negotiations and/or development of a sole supplier. Frequently, the end result of this step is a draft of a RFP document.

Step #5 Select Supplier and Negotiate

Depending on the implementation path selected in step 4, in this step the SM and the sourcing team plans the negotiation strategy, solicits and evaluates supplier proposals, manages the negotiation process with suppliers and recommends shifts in sourcing to new suppliers or changes in relationships with existing suppliers.

The team first develops a negotiating strategy based on analysis of the information from the market research. Then the team develops specific negotiating plans and strategies for each supplier that will be evaluated in the selection process.

If an RFP is issued, the supplier's proposals are analyzed and the team narrows the list of suppliers and may enter into the next step of negotiations. The process continues until agreement is reached between the company and the supplier.

A formal/written contract is always required for:

- *Any obligation in excess of \$250,000 (amount applies to single transaction or a series of transactions where the total anticipated value exceeds \$250,000 annually). (Notwithstanding the above, and depending on the specific circumstances, written contracts may still be advisable for transactions with values of less than \$250,000. Please consult the Legal Department in such cases.)*
- *All purchases of consulting services or other personal services, regardless of the dollar amount.*
- *All transactions involving real estate.*
- *All lease transactions.*
- *All transactions where proprietary information may be given or received.*
- *All transactions in which BellSouth's logos, trademarks, service marks and other intellectual property may be used by the other party to the transaction.*
- *All transactions where there are copyright, trademark, or patent issues.*
- *All transactions where there are environmental issues.*
- *All software licensing and software development transactions.*

Step #6 Operationalize Supplier

Within this step the transition from the existing supplier or current procurement process to a new supplier and/or a new procurement process takes place. At this point, it is crucial that members from all departments become involved with the integration of the new supplier and/or business procurement process. The Alliance organization, Logistics, Marketing, Accounting, Information Technology, Network, Customer Markets begin taking a lead role with the sourcing team to ensure all operating units are involved in the implementation process.

To ensure the new supplier and/or procurement process can meet all requirements and expectations, a test period may begin this phase. This test period will demonstrate the new procurement arrangement has the ability to meet the client's requirements and expectations.

An implementation/transition plan is then developed. Provisioning, including supplier and item set-up, accounting, accounts payable, contingency planning, supplier and process transition plans are coordinated and implemented in this step. This step completes when the new supplier or process is fully operationalized/integrated within all supporting systems and organizations and the business case has been presented.

Step #7 Benchmarking the Supply Stream

In this step, an internal process is established that will allow the SM to compare his or her current strategy to a benchmark. The benchmarking process aids the SM in examining the supply market environment and development, and decides when it is appropriate to reexamine the supply streams sourcing strategy and supply base. The benchmarks are a derivative of service level expectations, which are derivatives of business requirements. This benchmarking process will identify either that (1) the strategy continues to be effective or (2) the strategy needs to be re-evaluated. Benchmark data is contained and monitored in a supplier report card, which is developed to assist with the supply stream benchmarking. Supplier report cards consist of three components: supplier performance, internal business requirements, and marketplace standards. The components of the report card document should have already been established during the previous six (6) steps. The SM will aggregate the information in a report card during Step 7 for efficient and clear communication with business unit stakeholders”.

2. We obtained and read BST's procurement awards to the section 272 affiliate from June 1, 2003 through February 28, 2005. We read the bids submitted by the section 272 affiliate and by third parties, when applicable. In procedure 1 above we noted that the BST procurement process is administered through BSC Supply Chain Services (SCS). We noted the terms of the agreements and discussed with a BellSouth Corporation (BSC) representative how the selection was made. We compared this practice with BSC Supply Chain Service's written procurement procedures and noted no differences. We inquired of management and management indicated the following procurement awards given to the section 272 affiliate:
 - Competitive bid - Prepaid Calling Card Service Agreement – BellSouth received only one response to the RFP, BSLD; BSC management indicated BSLD complied with the RFP and therefore received the procurement award.
 - Competitive bid - Local Special Assembly Services and Long Distance Telecommunications Services for VOIP Services – BellSouth received one response to the RFP, BSLD; BSC management indicated BSLD complied with the RFP and only received the procurement award.
 - Competitive bid - Voice and Data Communication Services for Internal BellSouth Users – BellSouth received two responses to the RFP, BSLD and a non-affiliate; BSC management indicated both bids complied with the RFP. We obtained the rationale for selection and bid terms are disclosed in table 15 below. BSLD received the procurement award. We obtained the summary of terms and conditions of the procurement award to BSLD from the BellSouth website

(http://bellsouthcorp.com/policy/transactions/voipserviceagreement_051004.vtml). The summary indicated,

“BSLD is an interexchange telecommunications carrier offering interLATA and intraLATA long distance services. Under this agreement, BST will purchase wholesale long distance network services for the purposes of complementing its voice over internet protocol services offering to its customers.”

Table 15

No.	Area	Third Party	BSLD	Selected Supplier	Rationale for selection
1	Customer Service	Customer support is not centrally located and there would be no one single group supporting BellSouth.	Customer support is centrally located and a single customer service group would support BellSouth.	BSLD	A single customer service group is BellSouth's preference. This will allow BellSouth to identify problems with customer support more quickly.
2	Customer Service	For the escalation process, [third party] provided multiple contacts. There are different contacts for different problems. RFP follow-up: When response originally written, [third party] referred to BSLD and what they should do. They stated this was a typo and should be changed to BellSouth employee.	Provides BellSouth with a single escalation process for all problems	BSLD	BSLD provides a single escalation process regardless of the problem. BellSouth employees will know who to contact regardless of problem or situation. This makes it easier for BellSouth employees to escalate problems. RFP follow-up response does not change the multiple contacts for the escalation process at [third party].
3	Trouble Reporting	Provides multiple numbers and contacts.	Provides single number and contact.	BSLD	The BSLD process (i.e., single contact number) makes it easier and quicker for BellSouth employees to report troubles.

No.	Area	Third Party	BSLD	Selected Supplier	Rationale for selection
4	Invoicing and Billing	Defined process for resolving billing disputes and disputes would normally be resolved within 30 days.	Does not have a defined process and cannot resolve issues within 30 days. RFP Follow-up: Provided additional details in the RFP follow-up but continues to not provide a defined definitive process whereby issues will be resolved in a short timeframe.	[Third party]	[Third party] offers a defined process allowing issues to be resolved more quickly. RFP follow-up response from BSLD is still not in alignment with response from [third party].
5	Calling Cards	Takes 24 hours to activate international calling card.	Takes 48 hours to activate international calling card.	[Third party]	[Third party] can activate international calling for calling cards in less time.
6	Customer Service – Hold Time	Based on response, it appears sometimes customers do not have a hold time because if the rep is not available, the customer will be sent to voice mail.	Hold time is 30 seconds. Based on response, it does not appear calls are sent to a voice mail.	BSLD	Customers should not be sent to a voice mail and then wait for a return call. While BSLD has a hold time of 30-seconds, it appears as if reps always available to take calls.
7	Customer Service – Activities Conducted via Unique E-mail and 800 Number	RFP Follow-up: Based on follow-up to provide 1-800 number and unique e-mail, the RFP states BellSouth may use these forms of communications for all activities except consulting service.	Allows employees to use unique 800 number or e-mail address for all types of issues identified by BellSouth.	BSLD	All questions and issues can be resolved using the one 800 number and/or e-mail address that will be unique for BellSouth. Per the RFP follow-up, [third party] will provide

No.	Area	Third Party	BSLD	Selected Supplier	Rationale for selection
					<i>this same service for all activities except consulting services.</i>
8	<i>Service Intervals – E-mail Acknowledgement of Orders, etc.</i>	<p><i>Will not agree orders are correct if no response in 4 hours; does not agree to acknowledgement in 4 hours and fulfilled in accordance with service interval if no acknowledgement.</i></p> <p><i>RFP Follow-up. [Third party] said they needed 24 hours to review, ensure correct, and send to proper service center. The service interval clock would basically not begin until at least 24 hours after receipt of the order. [Third party] also said they would send an auto-reply if sent to unique e-mail address, but this did not infer it had been reviewed and was correct. This does not meet BellSouth requirement.</i></p>	<p><i>Will not agree orders are correct if no response in 4 hours; does not agree to acknowledgement in 4 hours and fulfilled in accordance with service interval if no acknowledgement.</i></p> <p><i>RFP Follow-up. BSLD would concur with statement if it were changed from four hours to eight business hours. BSLD also said they would provide an acknowledgement within eight business hours. Providing escalation procedure if acknowledgement not received within eight hours.</i></p>	<i>BSLD</i>	<i>Based on RFP follow-up responses, [third party] would need 24 hours as opposed to the 8 business hours needed by BSLD.</i>
9	<i>Service Intervals – Business Hours</i>	<p><i>Meets BellSouth requirements of 8-6 (EST).</i></p> <p><i>RFP Follow-up. Confirmed that per the RFP, customer service group is 8 to 5;</i></p>	<i>BSLD does not meet BellSouth requirements; only 8-5 (EST).</i>	<i>[Third party]</i>	<i>Per the RFP Follow-up, [third party] met the requirements as they were outlined in the RFP.</i>

No.	Area	Third Party	BSLD	Selected Supplier	Rationale for selection
		provisioning intervals are 8 to 6.			
10	Service Intervals – Performance Credit	Does not agree to a performance penalty. RFP Follow-up: [third party] provided BellSouth with its standard remedy which is to cancel the order request if delayed 30 days beyond a confirmed due date without any termination penalties being applied. [Third party] also stated if something else required, they would consider another remedy but did not agree to the 10 percent performance penalty originally proposed by BellSouth.	Does not agree to a performance penalty. RFP Follow-up. BSLD stated if awarded the RFP, BSLD would develop a process to support a 10 percent non-performance credit for service intervals that are not met.	BSLD	Per the RFP Follow-up, BSLD specifically stated they were willing to work with BellSouth to implement a process for 10 percent penalty. [Third party] did not agree to the 10 percent penalty.
11	Service Intervals – Meet Service Intervals	Compared to new requirement, [third party] will meet BellSouth requirement 24 out of 51 times. When [third party] says NO, 11 out of 27 times the proposed service interval is longer than current intervals. Generally, when [third party] did not meet the service interval requirement, proposed times exceeded the current	Compared to new requirement, BSLD will meet BellSouth requirement 29 out of 51 times. When BSLD says NO 8 out of 22 times the proposed service interval is longer than current intervals.	BSLD	BSLD can meet more of BellSouth's new service requirements and when unable to meet new service requirements, can generally meet existing service levels.

<i>No.</i>	<i>Area</i>	<i>Third Party</i>	<i>BSLD</i>	<i>Selected Supplier</i>	<i>Rationale for selection</i>
		<i>intervals by more days than BSLD.</i>			
<i>12</i>	<i>Reports – Real-time Data Report</i>	<i>Meets majority of requirements.</i>	<i>Meets less requirements than [third party]. RFP Follow-up: BSLD can provide data on a daily and weekly basis but cannot provide FTP mode of pick-up and delivery of data.</i>	<i>[Third party]</i>	<i>[Third party] can meet more of BellSouth's requirements than BSLD for this area.</i>
<i>13</i>	<i>Reports – Non-performance Report</i>	<i>Meets majority of requirements.</i>	<i>Meets less requirements than [third party]. RFP Follow-up: BSLD stated if awarded the RFP, they would work with BellSouth to customize reports as needed but did not say they could specifically meet these requirements.</i>	<i>[Third party]</i>	<i>[Third party] can meet more of BellSouth's requirements than BSLD for this report. RFP follow-up does not change that [third party] definitely responded they can meet requirements and BSLD has not yet specifically stated they can specifically meet BellSouth requirements.</i>
<i>14</i>	<i>Reports – Customer Satisfaction Report</i>	<i>Will not provide report.</i>	<i>Conflicting answers. Clarifying in follow-up. RFP Follow-up: BSLD expressed concern of not being able to meet the 50 respondents per quarter rule</i>	<i>BSLD</i>	<i>Per the RFP follow-up, BSLD will provide BellSouth this report and is only concerned about meeting 50 respondent requirement as opposed to</i>

<i>No.</i>	<i>Area</i>	<i>Third Party</i>	<i>BSLD</i>	<i>Selected Supplier</i>	<i>Rationale for selection</i>
			<i>but will share the results based on the respondents whereby they do receive information.</i>		<i>[third party] who will not provide this report.</i>
15	<i>Invoices – via Website</i>	<i>Will provide invoices via website.</i>	<i>Will not provide invoices via website.</i>	<i>[Third party]</i>	<i>[Third party] meets requirement to provide invoices via website.</i>
16	<i>Invoices – Data Elements</i>	<i>Provide all data elements.</i>	<i>Cannot provide all data elements. RFP Follow-up: BSLD stated if awarded the RFP, they will work with BellSouth to develop a solution to meet the need but made no commitment to provide these data elements.</i>	<i>[Third party]</i>	<i>[Third party] can meet all the requirements for data elements required on invoices. BSLD cannot meet all requirements. RFP follow-up does not change that [third party] definitely responded they can meet requirements and BSLD has not yet specifically stated they can specifically meet BellSouth requirements.</i>
17	<i>Intrastate Rates – General</i>	<i>[Third party] has a significantly higher rate in operator assistance calls.</i>	<i>Rates are better in the categories whereby BellSouth primarily uses services.</i>	<i>BSLD</i>	<i>While some rates are the same or even lower for [third party], the high rate for operator assistance calls offsets the difference in any BSLD rates.</i>

<i>No.</i>	<i>Area</i>	<i>Third Party</i>	<i>BSLD</i>	<i>Selected Supplier</i>	<i>Rationale for selection</i>
18	<i>Intrastate Rates</i>	<ul style="list-style-type: none"> – Rates vary depending on time of day of call, location, or type of call. – Rates provided for review were day rates. The majority of calls would be made during normal business hours; therefore the days rates would apply in most situations when calls are being made. – A comparison to the BSLD rates shows [third party] rates as generally higher than BSLD rates. 	<ul style="list-style-type: none"> – One rate regardless of the time of day call is being made. – One rate regardless of type of call (e.g., toll free, operator assistance), – Provides rate consistency and stability of rates through life of contract. 	<i>BSLD</i>	<i>BSLD provides one rate and rate stability. Overall rates are lower than [third party].</i>
19	<i>International Inbound Rates – General</i>	<p>Unable to compare to BSLD as rates were not provided.</p> <p>RFP Follow-up: [third party] stated this worksheet was labeled International Inbound rates. The rates excluded are considered (by [third party]) to be associated with International Outbound services and are covered in Worksheet 5 of Appendix C.</p>		<i>BSLD</i>	<p>[Third party]] did not provides rates upon which to provide a comparison.</p> <p>Based on RFP follow-up, BellSouth is still unable to evaluate [third party]'s general information regarding inbound international rates.</p>
20	<i>International Inbound Rates</i>	<ul style="list-style-type: none"> – [Third party] only provided rates in the toll free 	<ul style="list-style-type: none"> – Rates apply for life of contract. 	<i>BSLD</i>	<i>BSLD provides lower pricing.</i>

No.	Area	Third Party	BSLD	Selected Supplier	Rationale for selection
		category. – [Third party] stated these rates apply for life of contract.	– A comparison of toll free pricing shows BSLD as providing the lower price the majority of the time.		
21	International Outbound Rates – General	Generally, BellSouth employees are encouraged to use calling card when making outbound long distance calls. [Third party] provides a lower surcharge than BSLD.	Generally, BellSouth employees are encouraged to use calling card when making outbound long distance calls. BSLD surcharge is higher than [third party].	[Third party]	[Third party] provides a lower surcharge rate in the key area (calling card 1-8XX) than BSLD. Generally, employees are encouraged to use calling card for outbound international calls.
22	International Outbound Rates	– Rates can change throughout contract term. – Specifically in the calling card 1-8XX area (whereby most BellSouth international outbound calls will be made), rates are higher than BSLD.	– Provides rate stability through contract term. – Specifically in the calling card 1-8XX (whereby most BellSouth international outbound calls will be made), rates are lower than [third party].	BSLD	BSLD provides rate stability through contract term and lower rates in the key area of usage (1-8XX). Note: BellSouth employees are encouraged to use calling card when making international outbound calls for accountability purposes. BellSouth knows who made call.
23	Frame Relay	Generally [third party] rates are higher than BSLD.	Generally BSLD rates are lower than [third party]. Termination rarely happens so termination fee would	BSLD	Generally BSLD rates are lower. The most common port speed is 1536k and the rate provided by BSLD was

<i>No.</i>	<i>Area</i>	<i>Third Party</i>	<i>BSLD</i>	<i>Selected Supplier</i>	<i>Rationale for selection</i>
			<i>seldom apply.</i>		<i>lower in this area.</i>
24	<i>ATM Rates</i>	<i>Generally [third party] rates are higher than BSLD. RFP Follow-up: [third party] assumed Unspecified BIT Rate meant PVC/CIR. [third party] does not offer a "0" PVC/CIR.</i>	<i>Generally BSLD rates are lower than [third party]. Termination rarely happens so termination fee would seldom apply.</i>	<i>BSLD</i>	<i>Generally BSLD rates are lower. The normal configurations are DS3 and OC3 (unspecified bit rate PVC). [Third party] did not provide pricing in these categories. Based on RFP Follow-up BellSouth requires 0 PVC/CIR and therefore [third party] cannot meet this requirement.</i>
25	<i>Packages</i>	<i>Based on response, in some instances, [third party] is requiring a minimum commitment to obtain packages.</i>		<i>BSLD</i>	<i>In some instances, [third party] offers better response in the Package worksheet; in other instances BSLD is offering better response. Overall, based on response, BSLD meets more requirements than [third party].</i>
26	<i>Misc – Calling Cards</i>	<i>No charge for supplying calling cards.</i>	<i>Fee for supplying calling cards.</i>	<i>[Third party]</i>	<i>[Third party] does not charge for the calling card itself as opposed to the one-time fee charged by BSLD for each calling card itself.</i>

<i>No.</i>	<i>Area</i>	<i>Third Party</i>	<i>BSLD</i>	<i>Selected Supplier</i>	<i>Rationale for selection</i>
27	Contract	<ul style="list-style-type: none"> – [Third party] marked out all of BellSouth's terms and conditions and incorporated their own contract. – Based on this, there is the assumption [third party] agrees with none of the BellSouth terms and conditions. 	<ul style="list-style-type: none"> – BSLD modified Appendix D (contract) in accordance with RFP requirements. – BSLD agrees with some terms and disagrees with other terms. – When there were disagreements, BSLD offered alternative language. 	BSLD	BSLD agrees with some BellSouth terms and conditions as opposed to [third party] agreeing to no BellSouth terms and conditions given they marked the entire contract for deletion and inserted their own contract.

3. We obtained a list of all goods (including software), services, facilities and customer network services information, (excluding CPNI as defined in Section 222(f)(1) of the Communications Act of 1934, as amended, and exchange access services and facilities, and interLATA services) made available to the section 272 affiliate by BST. For the entire population of 43 items, we inquired of management as to the media used by BST to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. For the 43 items, management indicated the applicable media used to inform unaffiliated entities were:

- Tariffs filed with Federal and State Regulatory Authorities
- BSLD contracts posted to BellSouth's website at www.bellsouthcorp.com/policy/transactions
- An ongoing newsletter is mailed to customers and posted on www.interconnection.bellsouth.com. We noted in our reading of the newsletter that price, terms and conditions were not included. Potential customers are directed to contact an Account Executive for further details about specific product information and pricing.

We read the informational media used to inform unaffiliated entities of the availability of goods (including software), services, facilities and customer network services information, (excluding CPNI as defined in Section 222(f)(1) of the Communications Act of 1934, as amended, and exchange access services and facilities, and interLATA services) and noted the services were priced pursuant to the same tariffs and contracts as the section 272 affiliate.

4. (a) We obtained from management a list of goods (including software), services, facilities and customer network services information (excluding CPNI, exchange access services and facilities, and interLATA services) that were purchased during the Audit Test Period from the BOC/ILEC(s) by both an unaffiliated entity and any section 272 affiliate in any state. From the list of purchased services, we determined the top 10 services that were billed to unaffiliated third parties based on the highest billing volume in dollars. The top 10 services are (Reference Table 16):

Table 16

No.	Top Ten Services Purchased	Description
1	Integrated Package Complete Choice	Provides an exchange access line with features such as custom calling services (like 3 way calling or call waiting), RingMaster, etc.
2	Flat Rate Residence	An individual residential line that includes unlimited calls within the local calling area for a flat monthly fee.

No.	Top Ten Services Purchased	Description
3	Flat Rate Business	An individual business line that includes unlimited calls within the local calling area for a flat monthly fee.
4	Primary Rate ISDN	Provides an ISDN based, DS1 access line and includes the flexibility of integration of multiple voice and/or data transmission channels on the same line – up to 23 64 kbps B-Channels and 1 64Kbps D-channel.
5	Touchstar	Optional call management features offered in addition to basic telephone service such as: call return, call block, call tracing, calling number delivery blocking – permanent or per call, etc.
6	Megalink	A point to point DS1 transport service.
7	Business Plus / Business Choice	Business individual line plus a choice between 2 LATA-wide calling options – flat rate option and a combination flat basic service area/usage outside basic service area option.
8	BellSouth Centrex	Central Office based PBX alternative
9	Expanded Area Calling – Business	Service option that extends the calling area for a business line beyond the local calling area.
10	Custom Calling	Auxiliary features provided in addition to basic telephone service: 3 way calling, call waiting, speed calling, CFBL, CFDA, etc.

We inquired of management and management indicated that these services were billed using the Customer Record Information System (“CRIS”).

- (b) For the CRIS billing system, we obtained from management the descriptions of key controls, specifically the controls over (1) rate updates, (2) bill verification, and (3) journalization. The following is the summary of the key rate updates, bill verification, and journalization controls over CRIS:

(1) Rate Updates

- *“Rate changes can occur for the following reasons: tariff updates, contract changes, special assemblies [Special Assemblies are contracts generated for*

contract-only USOCs], USOC (Uniform Service Order Code) addendums, and rate letters for non-regulated service. Prior to retail rates being updated, proper authorization must be gained. This authorization is evidenced by receipt of tariffs and rate letters and contract updates with an approved status in Special Arrangement Mechanization System ("SAMS") (the rate change) database.

- *To help ensure the accuracy of the rate updates, a second rate manager reviews the rates entered and approves the rate change. This is evidenced by a signature on the checklist.*
- *After the rate changes have been implemented into CRIS via the upload process, a rate change report is created. Rate managers review the RN02B10 [for small scale rate changes] and the RG50B15 report [for large scale rate changes], to determine if rates were entered correctly."*

(2) Bill Verification

- *"During each billing period, a bill verification process is performed by the CRIS billing team. This process takes a system generated sample and clerks perform bill comparisons, bill formatting review, and message verification. This process is evidenced by a signed bill verification checklist maintained by Billing Clerks. During each bill period, CRIS pulls a sample from the Service Order Control System (SOCS) that meets specific criteria for each RAO (Revenue Accounting Office).*
- *To help ensure the accuracy of billing information, edits and thresholds are set on billing information. Edits that are not met cause a bill to be placed in a hold file for review and correction or release based on Billing Clerks review. Evidence of this control is information related to the error stored on the specific held bill file. If a particular bill does not pass an edit, the bill is sent to a hold file with a specific error code.*
- *During the bill correction process, irregularities in the number of errors are monitored by management to detect major issues within the billing process."*

(3) Journalization (Note: the following journalization controls apply to both CRIS and CABS billing systems)

- *"FDB [Financial Database] also has system controls to help ensure the completeness of the accounts receivable data received from the billing systems at the end of each day. Billing data sent to FDB is compared to total billing posted to customer accounts. To help ensure that accounts receivable information balances, FDB compares the previous day's ending accounts receivable, plus billing amount, less customer payments received, and plus/minus any*

adjustments to the subsidiary ledger's accounts receivable balance. If this amount does not balance, then FDB generates an error report. This does not stop FDB's processing of data. This control is evidenced by the RAO clerks' accounts receivable reconciliations.

Once the completeness of data received by FDB is confirmed, FDB checks the validity of the data. FDB compares the key data fields in the data feeds received to the key data fields found in Revenue Directory to help ensure the validity of the data. This control is evidenced by the error report for any non-validated key data fields received from the billing systems. If billing has attempted to use invalid key data fields (e.g. invalid account codes), then FDB generates an error report. RAO clerks receive the error reports for their assigned states and correct the information by editing the data directly in FDB. They edit the data in FDB through manual entries to FDB. The information stored in FDB is sent to the Financial Front End ("FFE") system on the second workday each month. FFE serves as a translation system that converts the file formats from the FDB format to the PeopleSoft G/L format.

- *The majority of controls over FFE are system based. FFE uses file integrity checks when receiving files from BellSouth systems for processing and integration into downstream systems. The system pages Accenture personnel if processing abends[abnormal ending]. This control is evidenced by the successful completion of the FFE jobs.*
- *Manual entries are made and approved. Manual entries to FDB (non-JIG [Journal Interface Gateway] file entries) that require approval due to dollar amount are approved via e-mail or a signed written approval according to the manual entry threshold policy. The threshold for clerks is set at \$100,000. Manual entries to the PeopleSoft General Ledger that require approval due to dollar amount are approved via e-mail or a signed written approval according to the manual entry threshold policy. The threshold for clerks is set at \$100,000.*
- *When the JIG file process is initially setup for a product, the JIG manager approves the JIG files for upload, evidenced by an e-mail to the Senior Accountant.*
- *To help ensure that entries are made and jobs are started in a timely manner, each RAO clerk has a walkthrough checklist (Word document) that lists when he or she should make certain entries and process certain FDB jobs. The RAO clerk completes the checklist and submits it to the RAO accounting manager for review, evidenced by a written signature. This checklist helps to ensure smooth and proper processing of FDB entries in preparing for close each month."*

- (1) We tested the key rate updates, bill verification, and journalization controls over the CRIS billing system and noted the following (Reference Table 17):

Table 17

No.	Control Description	Results
Rate Updates		
1	Prior to retail rates being updated, proper authorization must be gained. This authorization is evidenced by receipt of tariffs and rate letters and contract updates with an approved status in the SAMS database.	No differences noted for sample selected.
2	To help ensure the accuracy of the retail rate updates, a second rate manager reviews the rates entered and approves the rate change. This is evidenced by a signature on the checklist.	No differences noted for sample selected.
3	To help ensure that retail rates were entered and uploaded correctly into the CRIS tables, rate managers review the RN02B10 report. This control is evidenced by a signature on the rate entry checklist, and existence on the RN02B10 report.	No differences noted for sample selected.
Bill Verification		
4	The bill verification process is a bill sampling process that includes performing bill comparisons, bill formatting review, and bill message verification. This process is evidenced by a signed bill verification checklist maintained by Billing Clerks.	No differences noted for sample selected.
5	During processing, errors may occur within a specific customer's account that causes it to error out of the system.	No differences noted for sample selected.
6	During the bill correction process, irregularities in the number of errors are monitored by management to detect major issues within the billing process.	No differences noted for sample selected.
Journalization		
7	To help ensure that accounts receivable information balances, FDB compares the previous day's ending accounts receivable, plus billing amount, less customer payments received, and plus/minus any adjustments to the subsidiary ledger's accounts receivable balance. If this amount does not balance, then FDB generates an error report. This does not stop FDB's processing of	No differences noted for sample selected.

No.	Control Description	Results
	data. This control is evidenced by the RAO clerks' accounts receivable reconciliations.	
8	FDB compares the key data fields in the data feeds received to the key data fields found in Revenue Directory to help ensure the validity of the data. This control is evidenced by the error report for any non-validated key data fields received from the billing systems.	No differences noted for sample selected.
9	FFE uses file integrity checks when receiving files from BellSouth systems for processing and integration into downstream systems. The system pages Accenture personnel if processing abends. This control is evidenced by the successful completion of the FFE jobs.	No differences noted for sample selected.
10	Manual entries to FDB (non-JIG file entries) that require approval due to dollar amount are approved via e-mail or a signed written approval according to the manual entry threshold policy. The threshold for clerks is set at \$100,000.	No differences noted for sample selected.
11	When the JIG file process is initially setup for a product, the JIG manager approves the JIG files for upload, evidenced by an e-mail to the Senior Accountant.	Management indicated no new JIG files were set up during the Audit Test Period. We cannot validate the operation of this control however through inquiry we were able to ascertain that the control owner had knowledge of the design of the control.
12	Manual entries to the PeopleSoft G/L that require approval due to dollar amount are approved via e-mail or a signed written approval according to the manual entry threshold policy. The threshold for clerks is set at \$100,000.	No differences noted for sample selected.
13	To help ensure that entries are made and jobs are started in a timely manner, each RAO clerk has a walkthrough checklist (Word document) that lists when he or she should make certain entries and process certain FDB jobs. The RAO clerk completes the checklist and submits it to the RAO accounting manager for review, evidenced by a written signature.	No differences noted for sample selected.

- (2) We randomly selected one section 272 affiliate and one unaffiliated third party invoice for each of the top 10 services identified in procedure 4a above. We traced each section 272 affiliate and unaffiliated third party invoice to the CRIS billing system to confirm that each transaction was billed using the same system. We compared the rate charged the section 272 affiliate to the rate charged the unaffiliated third party. We did not note any instances where the unaffiliated third party rate was greater than the rate charged to the section 272 affiliate.
- (c) We inquired of management and management indicated that none of the services selected used different systems to bill the section 272 affiliates and unaffiliated third parties.
- (d) We obtained from management a description of BSLD's accounts payable process and controls to record and issue payments to the BOC/ILEC. The following is a summary of the controls over the accounts payable process:
- (1) Certification and approval of BSLD controls:
- *All invoices require certification prior to approval. The person certifying an invoice should have direct knowledge that BSLD has received the goods and services billed and that the charges are appropriate. The certifier signs their name on the invoice/ cover sheet as evidence of certification. Invoices may also be certified in Oracle.*
 - *All invoices require approval for payment. The person approving the invoice for payment should normally be management from the department responsible for the payment. Each approver is assigned a maximum approver dollar threshold. In addition, the Controller and CFO may approve invoices across all organizations in BSLD. The approver is to sign their name on the invoice or cover sheet. Invoices may also be approved in Oracle.*
- Managers should use the delegation of authority process for recurring payments or in the event of a manager's extended absence. The delegation is to be agreed upon between managers and then communicated via the delegation of authority form to the controller. The delegation of authority form is to be kept on file by the delegating manager as well as the controller.*
- (2) BASC Accounts Payable controls (BASC is responsible for the General Ledger accounting for the BellSouth affiliates, which includes account reconciliations, posting of journal entries, accounts payable. They were identified as process owners for three of the Accounts Payable controls identified by BSLD management.):
- *Only authorized personnel can approve vouchers in Oracle. All approvers are BellSouth employees. The accounts payable voucher module within Oracle is*

properly secured. All authorized users are required to log-in using a unique User ID and password.

- *Monthly balancing is done by BASC AP to ensure the process is complete for all invoices, amounts posted are accurate, and to appropriate accounts. The reconciliations are prepared by the Clerk and reviewed by the Manager. All reconciling items are properly reviewed, investigated and resolved.*
- *Monthly account reconciliations for outstanding checks and electronic payments are performed by the Disbursements Clerk to ensure the process is complete for all payment activity, amounts posted to the GL are accurate and made to the appropriate accounts. Reconciliations are performed according to account reconciliation guidelines maintained by the General Ledger Account Reconciliation review team. All reconciliations are reviewed and signed off monthly by the Disbursements Process Integration Analyst and quarterly by the Disbursements Manager.*

We tested the key controls over the accounts payable processes and noted the following (Reference Table 18):

Table 18

No.	Control Description	Differences
BSLD		
1	All invoices require certification prior to approval.	No differences noted for sample selected.
2	All invoices require approval for payment.	No differences noted for sample selected.
BASC		
3	Only authorized personnel can approve vouchers in Oracle.	No differences noted for sample selected.
4	Monthly balancing is done by BASC AP to ensure the process is complete for all invoices, amounts posted are accurate, and to appropriate accounts.	No differences noted for sample selected.
5	Monthly account reconciliations for outstanding checks and electronic payments are performed by the Disbursements Clerk to ensure the process is complete for all payment activity, amounts posted to the GL are accurate and made to the appropriate accounts.	No differences noted for sample selected.

5. We inquired of management regarding how BST disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to the section 272 affiliate and to unaffiliated entities. Management indicated the following:

"BellSouth has two primary methods for communicating information to its wholesale customers, whether affiliated or unaffiliated, regarding network service offerings, modification of network standards or core network changes: carrier notification letters for network service offerings and network disclosures for network standards or network changes.

Both processes are managed on a regional basis by the Interconnection Services Notification Manager in Atlanta, GA; to ensure a consistent process, copies of the templates, along with instructions are posted to the BellSouth internal website at: <http://interconnection.bls.com/marketing/downloads/html/notification.html>.

The Carrier Notifications and Network Disclosures are posted on BellSouth's public website at www.interconnection.bellsouth.com."

We noted no differences in the manner in which information regarding network changes, establishing or adopting new network standards, and the availability of new network services is disseminated to each section 272 affiliate and to unaffiliated entities.

6. For the customer service call centers observed in Procedure 7 below, we obtained and inspected scripts that BST's customer service representatives recite to new customers calling or visiting service centers to establish new or move an existing local telephone service within the BOC In-Region Territory for consumers, small businesses, and large businesses. We noted that the scripts informed the customers of other providers of long distance services along with the section 272 affiliate. The consumer, small business, and large business scripts included the following statement:

"Mr. Customer, you have many choices for your local toll and long distance service. I can read from a list of all the companies available for selection, but I'd like to recommend BellSouth Long Distance."

We inquired of management for the BellSouth Corporation website for on-line ordering of new and move service. Management indicated:

- Consumer – www.bellsouth.com for on-line ordering of new and transfer service
- Small business – www.bellsouth.com/smallbusiness for online ordering of new service only

- Large business – on-line ordering of new and transfer service is not available

We inspected the written content of the BST's websites for both residential and small business customers. We noted the following:

- The residential website informed customers wanting to establish new service or to transfer service of other providers of long distance services along with BSLD.
- The small business website informed the customers wanting to establish new service of other providers of long distance services along with BSLD.

7. We requested a list of BST customer service call centers as of the end of February 28, 2005. We obtained listings of BST's consumer sales and support call centers, consumer acquisition call centers, small business telecommunications call centers, BellSouth business services (large business) call centers, and consumer repair call centers.

(a) We obtained listings from management grouped by type of call center. We selected 1 of 1 call center for large business, randomly selected 1 of 19 call centers for small business, and randomly selected 3 of 5 consumer acquisition call centers.

We remotely observed and listened from BellSouth's Lenox Park complex in Atlanta, GA into 100 inbound callers requesting to establish new or move an existing local telephone service to whom the BST customer service representatives attempted to market the section 272 affiliate's interLATA service (Reference Table 19).

Table 19

Remotely Observed Location	Call Type	Number of Calls
Jackson, MS	Consumer	20
Ft. Lauderdale, FL	Consumer	20
Charlotte, NC	Consumer	20
Birmingham, AL	Small Business	30
Jacksonville, FL	Large Business	10

- **Results for Consumer Call Centers**

We remotely observed and listened into a total of 60 consumer inbound callers requesting to establish new local telephone service or move an existing local telephone service to whom the BST customer service representative attempted to market the section 272 affiliate's

interLATA service. For the first 20 inbound callers, at each location, requesting to establish new or move an existing local telephone service, we listened to the messages conveyed between the customer service representatives and the inbound callers, specifically, if the customer service representative steered the customer toward the section 272 affiliate, if the customer was informed of the list of other providers, and if the customer was informed of their right to choose a provider.

For the 60 consumer calls, we noted no exceptions.

- **Results for Small Business Call Center**

We remotely observed and listened into 30 small business inbound callers requesting to establish new or move an existing local telephone service to whom the BST customer service representatives attempted to market the section 272 affiliate's interLATA service. For the first 30 inbound callers, requesting to establish new or move an existing local telephone service, we listened to the messages conveyed between the customer service representatives and the inbound callers, specifically, if the customer service representative steered the customer toward the section 272 affiliate, if the customer was informed of the list of other providers, and if the customer was informed of their right to choose a provider.

For the 30 small business calls, we noted no exceptions.

- **Results for Large Business Call Center**

We remotely observed and listened into 10 large business inbound callers requesting to establish new local telephone service or move an existing local telephone service to whom the BST customer service representatives attempted to market the section 272 affiliate's interLATA service. For the first 10 inbound callers, requesting to establish new or move an existing local telephone service, we listened to the messages conveyed between the customer service representatives and the inbound callers, specifically, if the customer service representative steered the customer toward the section 272 affiliate, if the customer was informed of the list of other providers, and if the customer was informed of their right to choose a provider.

For the 10 large business calls, we noted no exceptions.

(b) We obtained from management a listing of BST's 18 sales and support call centers and 5 repair call centers that might incidentally respond to inbound callers requesting to establish new or move an existing local telephone service. From a total of 23 call centers, we randomly selected 4 sales and support call centers and 1 repair call center (total of 5).

- **Results for Sales & Support and Repair Call Centers**

We remotely observed and listened to a total of 100 calls for consumers requesting to establish new or move an existing local telephone service within the BOC in-region territory.

We remotely observed and listened into customers calling into the following centers (Reference Table 20):

Table 20

Call Center Type	Number of Call Centers in Population	Call Center Selected	Number of Calls
Sales and Support	18	Kennesaw, GA	20
		Jacksonville, FL	20
		Birmingham, AL	20
		Miami, FL	20
Repairs	5	Jacksonville, FL	20

We listened to the messages conveyed between the customer service representatives and the inbound callers, specifically, for any callers requesting to establish new or move an existing local telephone service. For the first 100 calls, we noted the following:

- 99 of 100 calls were not related to establishing new or moving existing telephone service.
- 1 of 100 calls was to re-establish telephone service with BST. The customer service representative immediately transferred the caller to the acquisition call center without further discussion regarding local or long distance service.

8. We obtained a list of BST’s inbound telemarketing centers in which representatives of third-party contractors might incidentally respond to inbound callers requesting to establish new or move existing local telephone service. For each third-party contractor, we remotely observed and listened as summarized below (Reference Table 21):

Table 21

Third-Party Contractor	Call Center Type	Number of Calls
Faneuil, Inc. (aka the Faneuil Group) (“Faneuil”)	Inbound Product Support	25
Teletech Customer Care Management (California), Inc. (“Teletech”)	Inbound Product Support	25
L.M. Berry and Company (“ETI”)	Inbound DSL	25

West Telemarketing Corporation Outbound ("West")	Inbound DSL	25
Innotrac Corporation ("Innotrac")	Product Support Center	25

For the first 125 calls, we listened remotely to the conversations between customer service representatives and inbound callers, specifically for callers requesting to establish new local telephone service or to move an existing local telephone service. We noted the following:

- 118 of 125 calls were not related to establishing new or moving existing telephone service.
- 3 of 125 calls requested new service. 1 of 3 calls was immediately transferred to a BST customer service center without further discussion regarding local or long distance service. 2 of 3 calls were referred to a BST customer service center, by communicating the telephone number to the customer, without further discussion regarding local or long distance service.
- 4 of 125 calls requested transfer of service. The representative immediately referred the caller to a BST customer service center.

9. We requested for a written description of the controls utilized by BST and third party contractors hired for inbound telemarketing to assure compliance by BST with Section 272. Management indicated the following:

"BST's inbound telemarketing vendors do not have access to the systems that would provide them the ordering capability to negotiate an order for new local service or to transfer existing BellSouth local service to a new address. The vendors are unable to take these types of orders."

"When an incoming call is received in the Consumer Inbound Telemarketing Call Center and the customer requests new local service or a transfer of existing local service, the vendor agent, who is unable to process such a request, uses the following script:

"I'm sorry, the number you have dialed is for (Product or Service being marketed) only. For other services, you may call your local BellSouth Business Office. I would be happy to sign you up today for (Product or Service being marketed) and tell you about some great new plans that could save you money, is that ok?"

As an additional control, our inbound telemarketing vendors do not have access to the systems that would provide them the ordering capability to negotiate an order for new local service or to transfer existing BellSouth local service to a new address. The vendors are unable to take these types of orders.

Vendor agents are trained in the proper usage of the above script. The vendors perform routine internal monitoring of their agents for compliance. Our BellSouth Vendor Managers conduct joint observations with the vendors for a minimum of one hour every other week to ensure compliance. In addition, CPAT (Customer Process Analysis Team), our own internal monitoring team, performs between 15-30 observations monthly on each vendor."

We inquired of management and management indicated the following controls remain in place for BST:

Table 22

Control Category	BST
<u>Training</u> : BST certified trainers are required to train customer service representatives (CSR) prior to commencing work	<ul style="list-style-type: none"> • Initial Training (12 weeks) - prior to commencing work • Weeks 9 through 12 of Initial Training are spent working on the job in a highly monitored training environment • CSRs receive informal and formal feedback from their coaches as needed • Coaches receive continuous training and updates
<u>Systems</u> : The CSRs must login and utilize specific computer systems when negotiating with the customer	<ul style="list-style-type: none"> • Regional Negotiation System (RNS) is utilized by CSRs to perform all aspects of customer service. RNS contains all the customer's information, including history, products and services subscribed, current billing information, etc
<u>Scripts</u> : CSRs are required to read scripts when negotiating with customers in order to comply with regulations	<ul style="list-style-type: none"> • Every CSR is required to maintain and utilize the BSLD Mandatory Offer Scripts
<u>Call Observation</u> : Calls are randomly monitored and assessed to ensure customer service and compliance with regulations	<ul style="list-style-type: none"> • Supervisors (coaches) observe a minimum of 10 calls per week • Center Leader observes a minimum of 10 calls per week within their center • Center Leaders holds "Triad Meetings" (meeting with CSR, Coach and Center Leader) to provide feedback to both the Coach and CSR regarding performance based on observation • Center Leader and coaches perform one calibration call per month within their center

Control Category	BST
	<ul style="list-style-type: none"> • Quality Assurance Manager then has a calibration session with LEAP and CPAT teams
<u>Monitoring</u> : Systems are in place to certify suitable performance and compliance	<ul style="list-style-type: none"> • Coaches and Center Leaders record findings during call observations on Observation Feedback Form • Coaches provide nightly observation feedback to the Center Leader and Director • Coaches maintain a file for each CSR containing performance reports, attendance records, training records, etc.
<u>Business Continuity</u> : A plan has been developed to keep operations running when systems fail or are not functioning as intended.	<ul style="list-style-type: none"> • A business continuity plan has been developed where manual forms are used to take orders when systems fail • BST has the ability to re-route calls to alternative call centers, should the need arise
<u>Compliance</u> : In accordance with FCC requirements, CSRs are required to inform callers of information prior to negotiating a sale.	<ul style="list-style-type: none"> • Scripts are used by all CSRs. • Disciplinary action is taken for non-compliance by CSRs • Each rep receives an informal disciplinary action for first offense (in accordance with their union contract) • Any subsequent noncompliance actions are noted by the Center Leader and tracked in the Centralized Personnel Services Group Database (CPSG) • Third Party Verifiers (TPV) are used to close re-acquisition orders and a code is required by the software to close a sale

10. We requested and obtained from management the contracts between BST and the third party vendors hired for inbound telemarketing. We read the five third party vendor contracts and noted the following controls relating to section 272 contained in the contracts (Reference Table 23):

Table 23

Control Category	TeleTech	Faneuil	West	ETI	Innotrac
<p><u>Training</u> – BST certified trainers are required to perform training to customer service representatives (CSR) prior to commencing work</p>	<ul style="list-style-type: none"> • Buyer (BST) will provide start-up training and/or methods and procedures • Seller shall develop all training, and obtain pre-approval from the buyer before conducting formal training for each program 	<ul style="list-style-type: none"> • Buyer may provide start-up training and/or methods and procedures, including ordering and background materials as required for each program. • Seller shall develop all training, with pre-approval by buyer, for all ongoing and organized training programs for inexperienced workers. 	<ul style="list-style-type: none"> • Buyer will provide start-up training and/or methods and procedures • Seller shall develop all training, with pre-approval by buyer, for all ongoing and organized training programs for inexperienced workers 	<ul style="list-style-type: none"> • Buyer will provide start-up training and/or methods and procedures • Seller shall develop all training, with pre-approval by buyer, for all ongoing and organized training programs for inexperienced workers 	<ul style="list-style-type: none"> • Buyer will provide start-up training and/or methods and procedures, to include ordering instructions, Product/Service information, and/or promotional offering material. • Upon initiation of a program or project, Buyer will administer training to a Seller Trainer who will then administer agent group training and subsequent testing. Seller trainers must demonstrate facilitation skills through teach-back sessions to be observed by the Buyer. Buyer must approve all trainers before agent training delivery. Agent to trainer

Control Category	TeleTech	Faneuil	West	ETI	Innotrac
					ratio and maximum class size will be agreed to between Buyer and Seller.
<u>Scripts</u> – CSRs are required to read scripts when negotiating with customers in order to comply with regulations.	<ul style="list-style-type: none"> • Seller will develop initial sales script for sales programs based on program information provided by buyer. • Buyer will review and approve all scripts before the program begins and before any changes are implemented. 	<ul style="list-style-type: none"> • Seller will develop an initial sales script, to include Q&A verbiage for overcoming objections, for any assigned program based on the information provided by buyer. • The scripts will be reviewed and pre-approved by the buyer and final script materials will be provided to the Seller. 	<ul style="list-style-type: none"> • Seller will develop an initial sales script for sales programs based on program information provided by the buyer. • Buyer will review and approve all scripts before the program begins and before any changes are implemented. 	<ul style="list-style-type: none"> • Seller will develop an initial sales script for sales programs based on program information provided by the buyer. • Buyer will review and approve all scripts before the program begins and before any changes are implemented. 	<ul style="list-style-type: none"> • Seller will develop an initial sales script for sales programs based on program information provided by the Buyer. This scripting will include common question and answer verbiage, positioning of the product or promotion, and verbiage for overcoming objections. • Buyer will review and approve all scripts before the program begins and before any changes are implemented.

Control Category	TeleTech	Faneuil	West	ETI	Innotrac
<u>Call Observation</u> – Calls are randomly monitored and assessed to ensure customer service and compliance with regulations.	<ul style="list-style-type: none"> • Seller will conduct joint, scheduled customer contact monitoring sessions with buyer on a monthly basis to calibrate expectations and standards for quality assurance. • Buyer will provide an observing form that outlines the quality standards and scoring methodology. • Buyer requires that a valid, random sampling of 18 calls per month, per program, will be jointly scored and averaged in order to calculate an overall monthly score for each program. 	<ul style="list-style-type: none"> • Seller shall monitor in such a way to attain a representative sampling of calls per representative, per month, per program, to assure Quality of Service is meeting BellSouth's Standard of Performance and to communicate to buyer the performance of the calls that are monitored 	<ul style="list-style-type: none"> • Seller will conduct joint, scheduled customer contact monitoring sessions with buyer on a monthly basis to calibrate expectations and standards for quality assurance. • Buyer will provide an observing form that outlines the quality standards and scoring methodology. • Buyer requires that a valid, random sampling of 18 calls per month, per program, will be jointly scored and averaged in order to calculate an overall monthly score for each program. 	<ul style="list-style-type: none"> • Seller will conduct joint, scheduled customer contact monitoring sessions with buyer on a monthly basis to calibrate expectations and standards for quality assurance. • Buyer will provide an observing form that outlines the quality standards and scoring methodology. • Buyer requires that a valid, random sampling of 18 calls per month, per program, will be jointly scored and averaged in order to calculate an overall monthly score for each program. 	<ul style="list-style-type: none"> • Seller will conduct joint, scheduled customer contact monitoring sessions with Buyer on a weekly basis to calibrate expectations and standards for quality assurance. • Buyer will provide an observing form that outlines the quality standards and scoring methodology. • Buyer requires that a valid, random sampling of calls two (2) hour per week, per program will be jointly scored and averaged in order to calculate an overall monthly score for each program.
<u>Monitoring</u> – Systems are in place	<ul style="list-style-type: none"> • Seller will provide to buyer remote, 	<ul style="list-style-type: none"> • Buyer requires remote monitoring 	<ul style="list-style-type: none"> • Seller will provide to buyer, at a cost to 	<ul style="list-style-type: none"> • Seller will provide to buyer remote, 	<ul style="list-style-type: none"> • Seller will provide to Buyer remote,

Control Category	TeleTech	Faneuil	West	ETI	Innotrac
to certify suitable performance and compliance.	<p>unassisted, customer contact monitoring capabilities</p> <ul style="list-style-type: none"> • Seller will monitor and provide feedback and development on a minimum of 12 calls per representative, per month, per program, outside of the joint monitoring sessions 	<p>capabilities to monitor quality of seller's program.</p> <ul style="list-style-type: none"> • Buyer may also request joint scheduled monitoring and/or individual non-scheduled monitoring. 	<p>be agreed upon, remote unassisted, customer contact monitoring capabilities</p> <ul style="list-style-type: none"> • Seller will monitor and provide feedback and development on a minimum of 12 calls per representative, per month, per program, outside of the joint monitoring sessions. 	<p>unassisted, customer contact monitoring capabilities</p> <ul style="list-style-type: none"> • Seller will monitor and provide feedback and development on a minimum of 12 calls per representative, per month, per program, outside of the joint monitoring sessions 	<p>unassisted, customer contact monitoring capabilities</p> <ul style="list-style-type: none"> • Seller will monitor and provide feedback and development on a minimum of 8 calls per representative, per month, per program, outside of the joint monitoring sessions, to further ensure that the quality of service provided is meeting Buyer's standards. Seller will report the quality of service monitoring results to the Buyer on a weekly basis, to include for each representative, the number of contacts monitored, the quality score for each contact, and a narrative on actions taken as a result of

Control Category	TeleTech	Faneuil	West	ETI	Innotrac
					the performance observed.
<u>Third Party Verification</u> – In accordance with FCC requirements, CSRs are required to inform callers of information prior to negotiating a sale.	<ul style="list-style-type: none"> • Certain buyer programs, such as Long Distance sales acquisition and local/toll winback, require third party verification. • Verification consists of validating customer specific data, recording the complete call, retaining and retrieving verification data, and trending and reporting performance. 	<ul style="list-style-type: none"> • Long Distance Third Party Verification – seller will verify all initial sales within 24 hours. • Orders will not be processed until fully verified for sale and service order accuracy. 	<ul style="list-style-type: none"> • West prefers to provide service on acquisition and winback programs rather than do the Third Party Verification calls. • BST will evaluate the TPV calls on a program basis 	<ul style="list-style-type: none"> • Certain buyer programs, such as Long Distance sales acquisition and local/toll winback, require third party verification. • Verification consists of validating customer specific data, recording the complete call, retaining and retrieving verification data, and trending and reporting performance. 	<ul style="list-style-type: none"> • None noted.

Control Category	TeleTech	Faneuil	West	ETI	Innotrac
<u>Reports</u> – BST has the ability to review third party reports	<ul style="list-style-type: none"> • Seller will provide daily, weekly, monthly, quarterly, and yearly performance reports on an “as needed” basis, or as specifically defined in an LPO in Microsoft Excel format and/or web based reporting system. 	<ul style="list-style-type: none"> • The parties shall mutually design report formats and provide a spreadsheet for daily, weekly, monthly and end of program data reports for the following: call data, performance data, transmission data, market research data, and quality assurance report. 	<ul style="list-style-type: none"> • Seller will provide daily, weekly, monthly, quarterly, and yearly performance reports in Microsoft Excel format and/or web based reporting system. • Buyer and seller will decide upon a two-way Report Card of performance measures to be monitored, scored, and reviewed each month for each program. 	<ul style="list-style-type: none"> • Seller will provide daily, weekly, monthly, quarterly, and yearly performance reports in Microsoft Excel format and/or web based reporting system. • Buyer and seller will decide upon a two-way Report Card of performance measures to be monitored, scored, and reviewed each month for each program. 	<ul style="list-style-type: none"> • Seller will provide daily, weekly, monthly and yearly performance reports in Microsoft Excel format.

11. (a) We inquired of management and management confirmed that BellSouth has represented (i) they will comply with the separate affiliate requirements set forth in 47 U.S.C. 272, including section 272(d), until such time as each of the nine states in BellSouth's region is relieved from the requirements, and (ii) they agree that BellSouth will be subject to enforcement proceedings for noncompliance with section 272 that occurs after July 17, 2003, in any of the nine states in BellSouth's region until such time as each of the nine states in BellSouth's region is relieved from the requirements. Management further indicated,

"Shortly after receiving authority to provide interLATA telecommunications services in the states of Georgia and Louisiana, BellSouth entered into a Consent Decree with the FCC regarding certain self-disclosed matters related to the provisioning of interLATA services. Paragraph 11(a) of the Consent Decree states:

For purposes of settling the matters set forth herein, BellSouth agrees to take the actions described below:

(a) *Separate affiliate requirements*

(i) BellSouth agrees that it will voluntarily comply with the separate affiliate requirements set forth in 47 U.S.C. 272, including section 272(d), until such time as each of the nine states in BellSouth's region is relieved from the requirements;

(ii) BellSouth agrees that it will be subject to enforcement proceedings for noncompliance with section 272 that occurs after the effective date of this Adopting Order in any of the nine states in BellSouth's region until such time as each of the nine states in BellSouth's region is relieved from the requirements;

You have asked for a representation letter that indicates the company's position on this matter. Pursuant to your request, it is BellSouth's position that it will comply with the above stated terms as set forth in the Consent Decree."

- (b) We inquired of management to provide the revisions BellSouth has made to the section 272 training for employees of BellSouth Corporation, which includes employees of BST and BSLD, as well as BellSouth's small business third-party telemarketing vendors, in response to the Consent Decree. Management indicated,

"BellSouth rewrote its entire Section 272 LD training course for rollout in 2003. The primary reason for the rewrite was to comply with the Consent Decree between BellSouth and the FCC Enforcement Bureau (July 2003), however, BellSouth made additional changes to the training beyond what the Consent Decree required. The

new training course, however, clearly addresses, and enhances previous training regarding, the operational working relationship between BST and BSLD. Additionally, a Mastery Test was included that must be taken by all BellSouth employees. The only 272 compliance mastery test taken by Small Business Services ("SBS") [a business unit of BST] employees is the mandatory mastery test included in the annual 272 corporate training. The inclusion of this test was directly responsive to section 11 (a)(iii) of the Consent Decree. BellSouth officially started the new training course in September 2003 with training to be completed by employees by December 2003. BellSouth has continued to make changes in the 2004 course to strengthen the course overall and to reflect changes in the FCC's rules as a result of the FCC's OI&M Order. The Mastery Test was also revised to make it more valuable to the user.

BellSouth's relationship with Communications Solutions and Technology ("CST"), the affected third party telemarketing vendor defined in the Consent Decree, was through a short-term trial arrangement that ended on January 7, 2003. At the end of the trial arrangement, BellSouth chose not to continue using CST as a vendor. Because the relationship with CST was terminated prior to the implementation of the new training and Mastery Test, the requirement that this vendor be trained under the new training became moot."

We obtained from management the Mastery Test results, in summary format.

"The corporate training results through December 2003 are included. The Mastery Test results are not maintained as of every date but are pulled on a specific date basis. The only Mastery Test results available for 2003 were through October 10 and accordingly, BellSouth has also included those results."

The summary of the Mastery Test results provided by management indicated that employees were asked ten questions. It also indicated that, on average, the questions were correctly answered approximately 57 percent of the time.

- (c) We inquired of management whether it has replaced its former compliance program in the Small Business organization with a centralized Small Business Compliance Group (or a successor group) to monitor and evaluate compliance obligations for both BellSouth small business employees and small business third-party telemarketing vendors, and when this was effective. Management indicated:

"Small Business Services continues to have a two management person compliance team that is responsible for all Compliance and Regulatory matters, including 272 compliance. This group reports to the Senior Director – Small Business Services Sales Operations who reports to the AVP - Strategy Development Small Business Services.

In response to the July 2003 Consent Decree, a centralized monitoring group was established in November 2003. This group monitors daily and evaluates various areas for the Inbound Small Business Channel, including its 272 compliance obligations.

BellSouth's relationship with Communications Solutions and Technology ("CST"), the affected third party telemarketing vendor defined in the Consent Decree, was through a short-term trial arrangement that ended on January 7, 2003. At the end of the trial arrangement, BellSouth chose not to continue using CST as a vendor. Because the relationship with CST was terminated prior to the implementation of the new training and Mastery Test, the requirement that this vendor be trained under the new training became moot. BellSouth SBS uses other third party vendors for marketing and selling BellSouth products on an outbound basis only. BellSouth SBS trains the third party telemarketers with materials that focus on the operational working relationship between BST and BSLD. BellSouth SBS performs review sessions with the third party vendors to monitor compliance."

We also inquired of management if there is a certification program and a tracking mechanism maintained by the Compliance Group and to ensure that the small business training programs are completed and completed in a timely manner. Management indicated:

"The Compliance Group monitors and tracks annual training completions through the BellSouth Learning Connection. Small Business is included in the corporate training certification. Overall completion results are provided to the Senior Vice President of Corporate Compliance annually."

Objective VIII: Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

1. Practices and Processes

We inquired of management regarding the practices and processes BST has in place to fulfill requests for telephone exchange service and exchange access service for the section 272 affiliate, the BOC and other affiliates, and non-affiliates in each state where BST has been authorized to provide in region interLATA services. Management indicated that the practices and procedures used to fulfill requests for telephone exchange services and exchange access services are the same for the section 272 affiliate, other affiliates, and non-affiliates. Current written procedures are listed in the "Access Service Request Ordering Guide." This is the Industry Support Interface Guideline under ATIS/OBF-ASR-000. This is provided by the Alliance for Telecommunication Industry Solutions (ATIS) on behalf of the ATIS-sponsored Ordering and Billing Forum (OBF). Applicable practices and processes are the same throughout BST's territory. Tutorials and detailed information can be found at: www.interconnection.bellsouth.com.

Internal Controls

We inquired of management regarding BST's internal controls and procedures designed to implement its duty to provide non-discriminatory service for fulfillment of requests for telephone exchange service and exchange access service. Management indicated that the following internal controls and procedures have been designed to implement its duty to provide nondiscriminatory service:

- Functional Policy 3.1 articulates the requirements associated with affiliate transactions. This policy applies to all business activities and employees at BellSouth including all wholly owned subsidiaries and operations controlled by BellSouth. For the purposes of this policy, 'affiliate' means any entity that BellSouth owns a 10% or greater interest. BellSouth will adhere to all state and federal laws and regulatory requirements concerning transactions between affiliates.
- All transactions that occur directly between the regulated operations of BST and its non-regulated affiliates, as well as transactions between other BellSouth non-regulated affiliates which directly or indirectly affect BST's expenses or investments, must be identified, approved, documented and accounted for properly. The identification, approval and documentation of every affiliate transaction must be made prior to the provision of the product and/or service or before the transfer of any assets or employees between BellSouth affiliates. It is the responsibility of the entity providing the product

and/or service or implementing the transfer to notify the BST Finance and Legal Departments to initiate the approval process. Approval must include the signatures of the affiliate Chief Financial Officer (CFO), affiliate chief legal counsel, BST Assistant Vice President (AVP) and Controller and appropriate BST legal counsel. It is also the responsibility of this entity to maintain the required documentation for five years.

- If the affiliate transaction involves BellSouth Long Distance, there must be a contract between the associated entities. When a contract is executed, it is posted to the public policy website within 10 days. Recurring and Nonrecurring charges are specified in the contract and referenced in the "transaction summary" when posted.
- All employees are required to complete section 272 compliance training, which aims to raise employee awareness of the requirements of section 272 and the Telecommunications Act of 1996.
- Additional information concerning BellSouth's policy on identification, approval, documentation and accounting for affiliate transactions can be found on the BellSouth internal Federal Financial Compliance website.

Management also provided the following information regarding procedures designed to implement its duty to provide nondiscriminatory service:

- Interconnection Sales and Services treats the section 272 affiliate, other affiliates and non-affiliates in the same manner.
- BellSouth Long Distance does not request services from specific departments that provide the service.
- BSLD uses the single channel of Interconnection Services as outlined above, as other carriers do.
- Methods to order products or services are clearly identified by the Product and Project teams.

Regarding BST's internal controls and procedures, mentioned above, designed to implement its duty to provide non-discriminatory service for fulfillment of requests for exchange access service, we inspected the following:

- Interconnection website (www.interconnection.bellsouth.com)
- Training manual for the "Section 272 Long Distance Training Compliance"
- Access Service Request Ordering Guide
- Access On-line Ordering Tutorial
- BellSouth's internal Federal Financial Compliance website

We noted that the Interconnection website contains guides and tutorials pertaining to the processing of access service transactions. We also noted that the training manual addressed section 272 compliance and provided an explanation of each of the requirements.

We read the Access Service Request Ordering Guide and Access On-line Ordering Tutorial and noted that it contains detailed procedures for ordering access services within the BellSouth region.

We inspected BellSouth's internal Federal Financial Compliance website and noted that it contains the following internal controls and procedures documents:

- Functional Policy 3.1
- BST Affiliate Transactions Accounting Policy
- BST Service Transactions with affiliates
- Coordinator's Guide for section 272 Long Distance Training Compliance

We noted that the above documents address section 272 compliance and provide an explanation of each of the requirements. We also noted that BellSouth's internal Federal Financial Compliance website includes Affiliate Transaction Training course information.

2. We inquired of management regarding the processes and procedures followed by BST to provide information regarding the availability of facilities used in the provisioning of special access services to its section 272 affiliate, the BOC or other BOC affiliates, and non-affiliates. Management indicated that information regarding the availability of facilities used in the provisioning of special access service to all carriers is provided via any of the following:

- Submission of an Access Service Request (ASR) - A service availability inquiry is automatically generated when the customer submits an ASR through the BellSouth Common Access Front-end (CAFÉ) system for any service greater than DS1. The section 272 affiliate, the BOC or other BOC affiliates, and all non-affiliates have access to the CAFÉ system.
- Submission of a Service Inquiry to the appropriate Account Team - A service availability inquiry can be submitted for services greater than DS1 through the customer's dedicated account team. The Account Team then submits the service availability request to the Capacity Management group in the appropriate state. Management indicated that service availability requests submitted through the section 272 affiliate's Account Team are processed in the same manner as service availability requests submitted by non-affiliates.

- Utilizing the Facility Availability System (FAS) - A service availability inquiry can be submitted by the section 272 affiliate, the BOC or other BOC affiliates, and all non-affiliates through FAS for DS1 and DS3 level services. FAS is a utility within CAFÉ that provides service inquiry capabilities without the submission of an ASR.

We inquired of management whether any employees of the section 272 affiliate or BOC and/or other BOC affiliates have access to, or have obtained information regarding, special access facilities availability in a manner different from the manner made available to non-affiliates. Management indicated that section 272 affiliate, BOC and/or other BOC affiliate employees do not have access to, nor have obtained information regarding special access facilities availability in a manner different from the manner made available to non-affiliates.

3. We requested of management the written methodology used by BST for documenting time intervals for processing orders, for provisioning of service, and for performing repair and maintenance services for the section 272 affiliate, as well as for the BOC and other BOC affiliates, described in Procedure 4 below. Management provided documentation describing how BST documents time intervals for processing orders, provisioning of service, and performing repair and maintenance services.

Management indicated that the Service Quality Measurement Plan (SQM) Version 1.05, dated April 26, 2003 is the written methodology that BST follows to document time intervals for processing orders, provisioning of service and performing repair and maintenance services.

Management indicated that from a system perspective, key date and time information is recorded or automatically captured in the source systems from which detailed transactions are extracted and used to compute the various measures and prepare the section 272 Performance Measure reports.

The following is a brief description of the methodology that BST follows to document time intervals for processing orders, provisioning of service, and performing repair and maintenance services.

Firm Order Confirmation (FOC) Timeliness

Management indicated that the reporting of FOC Timeliness is derived from information contained in the underlying Operational Support Systems (OSS) and specific time stamps applied in those systems. We noted that the time stamps applied included the FOC Date and ASR/LSR Received Date. Management indicated that these timestamps are obtained from the Exchange Access Control and Tracking (EXACT), Electronic Data Interchange (EDI) and CAFÉ systems.

Order Completion Interval, Average Intervals - Requested/Offered/Installation & Percent Installation Appointments Met

Management indicated that the reporting of the Order Completion Interval and the Average Intervals - Requested/Offered/Installation are derived from information contained in the underlying OSS and specific timestamps applied in those systems. We noted that the timestamps applied included the Application Date, Completion Date, ASR Received Date, Customer Desired Due Date, and FOC Due Date. Management indicated that these time stamps are obtained from EXACT, EDI, CAFÉ, and Service Order Control System (SOCS). The Percent Installation Appointments Met metric is not an interval calculation but reports the percentage of installation commitments completed on or before the FOC Due Date. Management indicated that the reporting of the Percent Installation Appointments Met is derived using the Missed Appointment Code as obtained from SOCS.

Average PIC Change Interval

Management indicated that the reporting of the Average PIC Change Interval is derived from information contained in the underlying OSS and specific time stamps applied in those systems. We noted that the time stamps applied included the Cycle Timestamp and Positive Acknowledgement Timestamp, the Request Receipt Date and Completion Date. Management indicated that these timestamps are obtained from Customer Account Record Exchange (CARE), SOCS, and MARCH, an operations system that processes switch-related service orders.

Trouble Report Rate and Average Repair Interval

Management indicated that the reporting of the Trouble Report Rate and Average Repair Interval are derived from information contained in the underlying OSS, line counts and specific time stamps applied in those systems. We noted that the time interval applied was the Responsible Duration, which is the difference between the Received Date/Time and Restored Date/Time minus any delayed maintenance, no access and/or referral durations. Management indicated that this time interval and line counts are obtained from the Work Force Administration (WFA) system.

4. For each state where BST has been authorized to provide in-region interLATA services, we requested from BST performance data and related volumes maintained by BST during the period June 1, 2003 through May 31, 2005, by month. We requested that BST indicate intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the section

272 affiliate, the BOC and other BOC affiliates, and non-affiliates, as separate groups for the following services:

- Telephone exchange services, if any of the separate groups resells local service or intraLATA toll service. This does not include the selling of BOC local service or intraLATA toll service to retail customers.
- Exchange access services as provided through an ASR for DS0, DS1, DS3, Feature Group D (FGD), and OCn, as individual groups; for the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.
- Unbundled network elements, if the section 272 affiliate purchases unbundled network elements.
- Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The reports provided by management under this procedure are included in Attachment A to this report.

We noted that management did not provide Telephone Exchange Service or Unbundled Network Elements performance data. We inquired of management and management provided the following representations:

- *"No BST affiliate, including BST itself, has purchased UNEs from BST during the period May 24, 2003 through May 23, 2005";*
- *"Only two affiliates of BST, BellSouth BSE, Inc. (BSE) and BellSouth Long Distance, Inc. (BSLD), have purchased Telephone Exchange Services for resale purposes from BST during the period May 24, 2003 through May 23, 2005. As explained in response to Objective I, procedure 1, part 1, BellSouth Corporation, the sole shareholder of BSE and BSLD, merged BSE into BSLD on December 31, 2004. The total services purchased by BSE and BSLD during that period, which consisted primarily of frame relay and related services purchased from state tariffs, including the associated revenues, sum to \$17.7 million "; and*
- *"BSLD also purchased a small amount of intraLATA toll services for resale during the period May 24, 2003 through May 23, 2005. Although BSLD did purchase intraLATA toll service for resale purposes during the period, intraLATA toll was not purchased by any other affiliate or non-affiliate for resale purposes during that period."*

We obtained confirmation from the JOT that since BellSouth's section 272 affiliate does not buy local telephone exchange service for resale and that the amount of local telephone exchange services purchased for resale by "the BOC or BOC affiliates" is very small, the local exchange category is not relevant and therefore BST is not required to provide performance data for local telephone exchange services. Also, while intraLATA toll was

purchased by the section 272 affiliate, we received a representation letter from Management of BST that no other affiliates or non-affiliates purchased intraLATA toll for resale. Therefore, performance measure comparisons are not applicable.

Management indicated that frame relay services purchased by BST and BSE were ordered via Access Service Requests and were included in the Exchange Access Services section 272 Reports. To verify that frame relay service orders were being captured by BellSouth in the Exchange Access Service section 272 Reports, we obtained and examined the BellSouth Exchange Access Frame Relay Service Ordering Guide and identified the class of service codes used by BellSouth to designate frame relay service orders. We then queried our independently replicated results for the Provisioning Measures P-1, P-1A, and P-2 for November 2003, November 2004, and April 2005 to identify records with a frame relay class of service code. We noted that BST includes frame relay service orders submitted via Access Service Requests in the Exchange Access Service section 272 Reports.

We noted that the performance data provided by management included results for the following performance measures:

- Firm Order Confirmation Timeliness
- Order Completion Interval
- Average Intervals - Requested/Offered/Installation
- Percent Installation Appointments Met
- Average PIC Change Interval
- Trouble Report Rate
- Average Repair Interval

We obtained the performance measurement reports provided by management and compared the reported intervals for the section 272 affiliate, and BOC and other BOC affiliates groups to the reported intervals for the non-affiliates. We noted that there are nine metrics reported on the performance measurement reports, as opposed to the seven listed above. This is because the Average Intervals measure is reported separately on three charts – one for Average Intervals – Requested, one for Average Intervals – Offered, and one for Average Intervals – Installation. We noted certain instances where the reported intervals for fulfillment of requests from non-affiliates took longer than for either the section 272 affiliate or the BOC or other BOC affiliates. We inquired of management and management provided the following responses:

Management indicated that the approach utilized in the determination of equity for mean, proportion, and rate measures, within the BellSouth section 272 Metrics, is the statistical comparison of BST performance data to IXC performance data, based upon the "Modified Z" methodology. These calculations will only be considered appropriate for determining equity of performance as long as there are 30 or more observations each for BellSouth and the IXCs

in the current time period. When the number of observations is less than 30, the sample size is too small to make a reasonable estimation of the true performance of the process.

Management also indicated that of the three provisioning measurements in its section 272 Service Quality Measurement Plan, P-1, Average Installation Interval, P-1A, Average Intervals - Requested/Offered/Installation, and P-2, Percent Installation Appointments Met, only measurement P-2 could be used to assess parity. Management indicated that the P-1 and P-1A intervals "reflect the business decisions of BellSouth's customers and display only whether BellSouth is meeting the customer's expectation when Customer Desired Due Date (CDDD) is offered. This is due primarily to the fact that BellSouth offers its customers the opportunity to "buy down" the CDDD as part of its access product offerings. Therefore, the average interval for any specific customer is a reflection of that customer's business plan and buying habits.

Management provided the following responses where the fulfillment of requests from non-affiliates took longer than for either the section 272 affiliate or the BOC or other BOC affiliates:

Firm Order Confirmation Timeliness

- In the state of Florida, for the product FGD during October 2003 and November 2003, the performance measurement data indicates that the section 272 affiliate received more timely firm order confirmations than non-affiliates.

For October 2003, analysis of data revealed that the disparate condition was caused because the system failed to recognize subsequent FOCs and ASRs in clarification. Total time was counted from original order submission rather than when a clean ASR was received. Recalculating with corrected data, the FOC interval would have been 1.54 days for non-affiliates, rather than the 4.09 days shown. This would not have created an out of equity condition. A change request was completed during the first audit to resolve this issue. However, the correction failed to go into effect. Another change request was issued in July 2005 to correct the system issue and is pending.

For November 2003, analysis of data revealed that the disparate condition was due to a workload imbalance, causing extended FOC times on seven of 21 non-affiliate ASRs with intervals greater than two days. A mechanized management tool was enhanced and made accessible, via the web, in November 2003, to identify each manager's workload and the workload assignments for each service representative to ensure all ASRs are handled properly and the workload was balanced effectively and efficiently. This management tool is helping to ensure that ASRs are handled in a timely manner.

- In the state of Florida, for the product DS1 during April 2005, the performance measurement data indicates that the section 272 affiliate received more timely firm order confirmations than non-affiliates.

Analysis of data revealed that the disparate condition was due to inclusion of project managed ASRs and service representative delays in system error correction. Exclusion of the project managed ASRs revealed that 97% of the Non-Affiliate DS1 ASRs were confirmed within an acceptable timeframe. Including the project managed ASRs resulted in inflation of the FOC interval. Recalculating with corrected data, the FOC interval would have been 0.74 of a day for Non-Affiliates and would not have created an out of equity condition. A notification was distributed to the service centers in April 2005 to ensure that the correct format for project IDs is utilized and to ensure that system errors are cleared in a timely manner to prevent delays in FOCs.

- In the state of North Carolina, for the product DS3 Non-Optical during January 2005, the performance measurement data indicates that the other affiliates received more timely firm order confirmations than non-affiliates.

The type of service requests submitted was the contributing factor to the difference between results. The BOC & other affiliates' service requests submitted were 5% new adds, 88% disconnects, and 7% change requests. The non-affiliates submitted 64% new adds, 28% disconnects, and 8% change requests. The significant difference is that disconnect service requests receive an almost instantaneous FOC, while add orders take longer to process due to facility and/or equipment verification.

Average PIC Change Interval

- Regarding the entire region during June 2003 and July 2003, the performance measurement data indicates that the section 272 affiliate received more timely PIC change completions than non-affiliates.

Analysis of the data revealed that one inter-exchange carrier submitted, via a batch job, over 30,000 PIC/LPIC changes for the same customer, with an application date of 5/22/03; however, the actual due dates for this request ranged from 6/1/03 thru 7/15/03. Due to the volume of PIC/LPIC changes, this request was project managed and the due dates of the request were agreed to by the customer and inter-exchange carrier. To prevent this from happening in the future, management reiterated instructions to customers and service centers in October 2003. These instructions required that projects have separate application dates for each group of 1,500 circuits

Trouble Report Rate

We noted the performance measurement data indicated that the section 272 affiliate or other affiliates reported a lower trouble report rate than the non-affiliates for the following products in the months indicated:

Table 24

State	Product	Months	# of Months Out of Parity
Alabama	DS1	June 2003 - October 2003, January 2004, April 2004 - May 2005	20
Alabama	DS0	April 2005	1
Alabama	FGD	May 2004	1
Florida	DS0	June 2003, August 2003, January 2004 - May 2004	7
Florida	DS1	June 2003 - May 2005	24
Florida	FGD	June 2003, February 2004, September 2004, October 2004	4
Georgia	DS1	June 2003 - May 2005	24
Georgia	DS0	May 2004	1
Kentucky	DS1	June 2003 - November 2003, January 2004 - July 2004, September 2004, October 2004, December 2004 - March 2005, May 2005	20
Louisiana	DS0	August 2003	1
Louisiana	DS1	June 2003 - February 2005, April 2005, May 2005	23
Mississippi	DS1	June 2003 - September 2003, December 2003 - May 2005	22
Mississippi	FGD	February 2004, August 2004	2
North Carolina	DS1	June 2003 - November 2003, January 2004 - May 2005	23
North Carolina	FGD	April 2004	1
North Carolina	DS0	August 2003	1
South Carolina	DS1	June 2003 - October 2003, February 2004, April 2004 - January 2005, March 2005 - May 2005	19
South Carolina	FGD	July 2003	1
Tennessee	DS1	July 2003, November 2003, January 2004, March 2004 - May 2005	18

State	Product	Months	# of Months Out of Parity
Tennessee	FGD	November 2003, May 2004, February 2005	3

We elicited a response from management who reviewed the data for the twenty-four month period from June 2003 through May 2005. Management indicated that overall service levels during the period were high and that over a fourth of the trouble tickets received for the months indicated above were No Trouble Found or Tested OK.

In the state of Kentucky, for the product DS1 during March 2005, management provided the following response:

Analysis of data revealed that the disparity could not be determined due to insufficient data available to compare troubles for BOC/other affiliates to non-affiliate troubles. The volume of tickets for non-affiliates was impacted by percentage of tickets closed to certain trouble codes and type of service for these DS1s. Non-affiliates had a total of 33.11% of TOK and NTF troubles. TOK and NTF tickets generally take a shorter time to close out than other tickets. 39.25% of the non-affiliate troubles were facility access (FAC) troubles. Of the FAC troubles, 70.43% were due to the number of cut and damaged cables and/or fibers which adversely affected the trouble rate volume for the non-affiliates. BellSouth special access non-affiliate customers were serviced with approximately a 99.97% trouble-free DS1 access circuit base during this month.

Average Repair Interval

We noted the performance measurement data indicated that the section 272 affiliate or other affiliates reported a shorter repair interval than the non-affiliates for the following products in the months indicated:

Table 25

State	Product	Months	# of Months Out of Parity
Alabama	FGD	February 2004	1
Florida	FGD	December 2003, January 2004, March 2004	3
Florida	DS1	October 2003, January 2004, May 2004, August 2004, October 2004 - January 2005	8
Georgia	FGD	July 2003	1
Georgia	DS0	January 2005	1
Georgia	DS1	August 2003, September 2003, January	8

State	Product	Months	# of Months Out of Parity
		2004, June 2004, August 2004 - October 2004, March 2005	
Louisiana	DS1	October 2004	1
North Carolina	DS1	September 2003, December 2004	2
Tennessee	FGD	April 2004	1
Tennessee	DS0	November 2004	1

We elicited a response from management who reviewed the data for the months indicated above. Management provided the following responses for each of the disparities indicated above:

- In the state of Alabama, for the product FGD during February 2004, the performance measurement data indicates that the section 272 affiliate reported a shorter repair interval than non-affiliates.

The analysis of the trouble reports for the section 272 affiliate indicated that the trouble was actually on a DS1 circuit, which is not included in this measure, rather than at the FGD level reported, generating 24 tickets rather than one. The trouble tickets on the trunks should have been closed to informational reports and a new trouble ticket should have been generated on the DS1 circuit. The technicians were advised in May 2004 to accurately follow the procedures when troubles are reported incorrectly.

- In the state of Florida, for the product FGD during December 2003, January 2004, and March 2004, the performance measurement data indicates that the section 272 affiliate or BOC/other affiliates reported a shorter repair interval than non-affiliates.

For December 2003, the difference in average repair interval between the section 272 affiliate and non-affiliates was due solely to one outage that affected BSLD's trunks, resulting in 49 tickets with short repair durations being opened. The incident occurred between ORLDFLMAXKX and OVIDFLCADSO locations, and was not an issue for any other IXC. Removing this incident would leave the section 272 affiliate's two tickets with an average repair interval of .43 of a day compared to the non-affiliate average repair interval of .49 of a day.

For January 2004, the analysis of the data indicated two section 272 affiliate trunk troubles that were actually a DS1 circuit, which is not included in this measure, rather than at the FGD level reported, generating 24 tickets rather than one. The trouble tickets on the trunks should have been closed to informational reports and a new trouble ticket should have been

generated on the DS1 circuit. Without those trouble tickets, the average duration time for the section 272 affiliate would have been .63 of a day and the volumes would likely not have been significant enough to warrant comparison.

For March 2004, the discrepancy between the measures was due primarily to two events. One IXC trouble was a non-circuit specific trouble, and the ticket should have been closed to informational reports and a non-circuit specific ticket should have been generated. In addition, the second trouble was opened for 24 affiliate trunks; however, the trouble ticket should have been opened on a DS1. The technicians were advised in June 2004 to accurately follow the procedures when troubles are reported and/or input incorrectly.

- In the state of Florida, for the product DS1 during October 2003, January 2004, May 2004, August 2004, and October 2004 - January 2005, the performance measurement data indicates that the section 272 affiliate or BOC/other affiliates reported shorter repair intervals than non-affiliates.

For October 2003, the variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. BOC/other affiliate circuits were used primarily for frame relay services (67%). Non-affiliates had no circuits used for frame relay. Frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

For January 2004, the main contributor to the average repair interval difference between BOC/other affiliates and non-affiliates was the percentage of TOK and NTF troubles. BOC/other affiliates had a total of 41.51% NTF and TOK compared to non-affiliates that had 23.35%. TOK and NTF tickets generally take a shorter time to close out than other tickets.

For May 2004, cut cable/fiber for the non-affiliates adversely affected the average repair interval. Geographic location of customers and type of service provided were the major contributing factors to the difference between BOC/other affiliate and non-affiliates. BOC/other affiliate customers are more metro, frame relay customers that experience less cut cable and/or fiber. Frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

For August 2004, a combination of cut cable and/or fiber for non-affiliates and the NTF and TOK tickets contributed to the difference in average repair intervals between BOC/other affiliates and non-affiliates. BOC/other affiliates had a total of 55.10% NTF and TOK tickets compared to 29.51% for non-affiliates. TOK and NTF tickets generally take a shorter time to close out than other tickets.

For October 2004, a combination of cut cable and/or fiber for non-affiliates and the NTF and TOK tickets contributed to the difference in the average repair interval between BOC/other affiliates and non-affiliates. BOC/other affiliates had a total of 45% NTF and TOK compared to 24.68% for non-affiliates. TOK and NTF tickets generally take a shorter time to close out than other tickets.

For November 2004, a combination of cut, wet, and damaged cable/fiber facilities and the NTF and TOK tickets contributed to the difference in the average repair interval between BOC/other affiliates and non-affiliates. BOC/other affiliates had a total of 54.05% NTF and TOK tickets compared to non-affiliates that had 28.56%. TOK and NTF tickets generally take a shorter time to close out than other tickets.

For December 2004, cut, wet, and damaged cable/fiber for the non-affiliates adversely affected the average repair interval. Geographic location of customers and type of service provided were the major contributing factors to the difference between BOC/other affiliate and non-affiliates. BOC/other affiliate customers are more metro, frame relay customers that experience less cut cable and/or fiber. Frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

For January 2005, a combination of cut, wet, and damaged cable/fiber facilities and the NTF and TOK tickets contributed to the difference in the average repair interval between BOC/other affiliates and non-affiliates. BOC/other affiliates had a total of 54.05% NTF and TOK tickets compared to non-affiliates that had 28.56%. 100% of the BOC/other affiliates circuits were frame relay, compared to 0.2% for non-affiliates. TOK and NTF tickets generally take a shorter time to close out than other tickets, in addition to the fact that frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

- In the state of Georgia, for the product FGD during July 2003, the performance measurement data indicates that the section 272 affiliate reported a shorter repair interval than non-affiliates.

Analysis of the data indicated that there was an instance where two T1s went down simultaneously, affecting the 48 switched trunks. The trouble was associated with the T1s and not the trunks. The trouble tickets were closed at the trunk level rather than appropriately at the T1 level. The trouble tickets on the trunks should have been closed to informational reports and tickets on the T1s should have been generated. A memo was distributed in October 2003 to the appropriate departments reiterating the procedures for closing switched services that are disabled due to carrier failures.

- In the state of Georgia, for the product DS0 during January 2005, the performance measurement data indicates that the BOC/other affiliates reported a shorter repair interval than non-affiliates.

The variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. 100% of BOC/other affiliate circuits were used for frame relay services. Non-affiliates had only 15.7% of circuits used for frame relay. BOC/other affiliates had a total of 61.54% NTF and TOK tickets compared to non-affiliates that had 31.82%. TOK and NTF tickets generally take a shorter time to close out than other tickets, in addition to the fact that frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

- In the state of Georgia, for the product DS1 during August 2003, September 2003, January 2004, June 2004, August 2004 - October 2004, and March 2005, the performance measurement data indicates that the section 272 affiliate or BOC/other affiliates reported shorter repair intervals than non-affiliates.

For August and September 2003, the variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. BOC/other affiliate circuits were used primarily for frame relay services (69.2%). Non-affiliates had only 1.4% of circuits used for frame relay. Frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

For January 2004, the parity difference that affected the data between other affiliates and non-affiliates relates directly to the types of troubles that were handled and number of those troubles. The non-affiliates' higher duration was attributed to the higher number of FAC troubles (53.14%), which incurred longer durations (5.01) before the circuit was fixed. Conversely, other affiliates had only 20% of their troubles closed to FAC which had a comparable duration of 5.00. Other affiliates had a higher central office (CO) percentage at 35% but incurred less duration due to the nature of their circuits, which are distributed largely in metropolitan areas and some of them being referred to the Network Infrastructure Support Center (NISC) instead of the CO. NISC dispatches are of shorter duration due to the environment of being a remote access center with the ability to restore translations without the help of a CO technician.

For June 2004, the main contributor to the average repair interval difference between BOC/other affiliates and non-affiliates was a combination of the percentage of NTF trouble tickets and the number of cut, wet, and damaged cable/fiber facilities due to the type of

service being provided and the geographic location of customers. 100% of BOC/other affiliate circuits were used for frame relay services. Non-affiliates had no circuits used for frame relay. Most frame relay troubles require only in-house computer work that can be done through remote access. In addition, BOC/other affiliate customers are generally more metro located, frame relay customers that experience less cut cable and/or fiber.

For August 2004, the variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. BOC/other affiliate circuits were used primarily for frame relay services (62%). Non-affiliates had only 1.0% of circuits used for frame relay. Frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

For September 2004, cut cable/fiber for the non-affiliates adversely affected the average repair interval. Geographic location of customers and type of service provided were the major contributing factors to the difference between BOC/other affiliate and non-affiliate. BOC/other affiliate customers are generally more metro, frame relay customers that experience less cut cable and/or fiber. Frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

For October 2004, the variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. BOC/other affiliate circuits were used primarily for frame relay services (93.9%). Non-affiliates had only 2.2% of circuits used for frame relay. BOC/other affiliates had a total of 38.78% TOK tickets compared to non-affiliates that had only 19.05%. TOK tickets generally take a shorter time to close out than other tickets, in addition to the fact that frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

For March 2005, the variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. BOC/other affiliate circuits were used primarily for frame relay services (66%). Non-affiliates had no circuits used for frame relay. BOC/other affiliates had a total of 59.46% NTF and TOK tickets compared to non-affiliates that had only 35.89%. NTF and TOK tickets generally take a shorter time to close out than other tickets, in addition to the fact that frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

- In the state of Louisiana, for the product DS1 during October 2004, the performance measurement data indicates that the BOC/other affiliates reported a shorter repair interval than non-affiliates.

The variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. BOC/other affiliate circuits were used primarily for frame relay services (100%). Non-affiliates had only 0.2% of circuits used for frame relay. Frame relay services tend to have troubles that can be found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work.

- In the state of North Carolina, for the product DS1 during September 2003 and December 2004, the performance measurement data indicates that the BOC/other affiliates reported shorter repair intervals than non-affiliates.

For September 2003, the variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. BOC/other affiliate circuits were used primarily for frame relay services (63%). Non-affiliates had no circuits used for frame relay. Frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

For December 2004, the variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. 100% of BOC/other affiliate circuits were used for frame relay services. Non-affiliates had only 1.2% circuits used for frame relay. Frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

- In the state of Tennessee, for the product FGD during April 2004, the performance measurement data indicates that the section 272 affiliate reported a shorter repair interval than non-affiliates.

The difference in intervals between the section 272 affiliates and non-affiliates was due to slow response time in the handling of two trouble tickets. The two tickets were inadvertently overlooked in the maintenance pool. BST reiterated the importance of managing the trouble ticket pools in an expeditious manner to all appropriate employees in June 2004.

- In the state of Tennessee, for the product DS0 during November 2004, the performance measurement data indicates that the BOC/other affiliates reported a shorter repair interval than non-affiliates.

The variation between repair intervals for the BOC/other affiliates and non-affiliates was found to be in the volume of tickets and the types of service provided. 100% of BOC/other affiliate circuits were used for frame relay services. Non-affiliates had only 0.1% of circuits used for frame relay. Also, the percentage of TOK and NTF troubles was a factor. BOC/other affiliates had a total of 54.29% NTF and TOK compared to non-affiliates that had 28.57%. TOK and NTF tickets generally take a shorter time to close out than other tickets, in addition to the fact that frame relay services tend to have troubles that can be tested, found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only in-house computer work that can be done through remote access.

5. Using a random sampling method, we selected the months of November 2003, November 2004 and April 2005 for which to perform the metric replications. For each state for the selected months, we obtained the related underlying performance metric data files from management. We also obtained, from management, the BellSouth Service Quality Measurement (SQM) Plan, which contains business rules used to calculate the metrics stated in Procedure 4. We applied these business rules to all stages of the metric calculation process, including definitions, exclusions, calculations and reporting structure. The SQM contains business rules for the following services:

- Special Access,
- Switched Access, and
- Resale.

Because telephone exchange services (i.e., resale) were not required as a result of Procedure 4, we replicated the metrics per the business rules contained in the SQM only as they applied to special access and switched access.

We developed, based on our understanding of the business rules for the calculation of the performance measures, program code to apply the algorithms and calculation criteria for the replication of the performance measures to the underlying performance metric data. Using our developed program code, we replicated the numerator, denominator and result for each of the performance measures for all states for the selected months. We performed the performance measure replications for each of the service types (i.e., DS0, DS1, etc.) and reporting segmentations (i.e., section 272 affiliate, other affiliates and non-affiliates) as required by the procedures.

We noted no differences between our results and those reported by management based on our independent replications, except as noted below:

All Performance Measures

The SQM states that all internal or administrative orders or trouble tickets should be excluded from the results of the section 272 performance measures. However, we noted that BellSouth is including some internal or administrative orders or trouble tickets in the performance measure results.

- We noted that for the FOC Timeliness measure, less than .07% of the records in our replication results contained internal or administrative service requests for November 2003 and November 2004 and there were 0 internal or administrative service requests in our replications results for April 2005.
- We noted that for the Trouble Report Rate measure, less than .002% of the records in our replication results contained internal or administrative trouble reports for November 2003, November 2004 and April 2005.

We calculated the Provisioning measures excluding internal or administrative service orders and noted the following differences (Refer to Table 26):

Table 26

November 2003: Order Completion Interval:

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	AL	DS0	Other Affiliate	8	6	12.50	15.33
2	AL	DS1	Other Affiliate	25	21	9.60	10.67
3	AL	DS3 Non-Optical	Other Affiliate	4	2	37.25	70.50
4	NC	DS3 Non-Optical	Other Affiliate	3	0	12.00	0.00

November 2004: Order Completion Interval:

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	FL	DS1	Other Affiliate	155	154	13.62	13.67
2	FL	DS3 Non-Optical	Other Affiliate	24	20	16.71	18.10
3	SC	DS1	Other Affiliate	31	30	22.13	22.83

April 2005: Order Completion Interval:

PwC noted that there was no impact to the April 2005 Order Completion Interval performance measure results for this issue.

November 2003: Average Intervals – Requested / Offered / Installation:

No.	Measure	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Requested	AL	DS0	Other Affiliate	13	11	7.46	8.27
2	Requested	AL	DS1	Other Affiliate	29	26	6.79	7.35
3	Requested	AL	DS3 Non-Optical	Other Affiliate	6	3	21.50	40.67
4	Requested	NC	DS3 Non-Optical	Other Affiliate	4	1	8.25	9.00
5	Offered	AL	DS0	Other Affiliate	13	11	7.62	8.45
6	Offered	AL	DS1	Other Affiliate	29	26	6.90	7.46
7	Offered	AL	DS3 Non-Optical	Other Affiliate	6	3	25.50	48.67
8	Offered	NC	DS3 Non-Optical	Other Affiliate	4	1	8.25	9.00
9	Installation	AL	DS0	Other Affiliate	13	11	9.23	10.36
10	Installation	AL	DS1	Other Affiliate	29	26	6.97	7.54
11	Installation	AL	DS3 Non-Optical	Other Affiliate	6	3	25.50	48.67
12	Installation	NC	DS3 Non-Optical	Other Affiliate	4	1	8.25	9.00

November 2004: Average Intervals – Requested / Offered / Installation:

No.	Measure	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Requested	FL	DS1	Other Affiliate	150	149	11.83	11.79
2	Requested	FL	DS3 Non-Optical	Other Affiliate	29	24	18.24	14.21
3	Requested	SC	DS1	Other Affiliate	32	31	12.69	13.10
4	Offered	FL	DS1	Other Affiliate	150	149	11.94	11.90
5	Offered	FL	DS3 Non-Optical	Other Affiliate	29	24	16.59	15.63

			Optical					
6	Offered	SC	DS1	Other Affiliate	32	31	13.03	13.42
7	Installation	FL	DS1	Other Affiliate	150	149	9.15	9.18
8	Installation	FL	DS3 Non-Optical	Other Affiliate	29	24	14.90	16.42
9	Installation	SC	DS1	Other Affiliate	32	31	12.16	12.52

April 2005: Average Intervals – Requested / Offered / Installation:

PwC noted that there was no impact to the April 2005 Average Intervals – Requested / Offered / Installation performance measure results for this issue.

November 2003: Percent Installation Appointments Met:

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	AL	DS0	Other Affiliate	10	8	90.00	87.50
2	AL	DS1	Other Affiliate	32	27	93.75	92.59
3	AL	DS3 Non-Optical	Other Affiliate	6	4	100.00	100.00
4	NC	DS3 Non-Optical	Other Affiliate	9	6	100.00	100.00

November 2004: Percent Installation Appointments Met:

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	FL	DS1	Other Affiliate	240	239	91.67	91.63
2	FL	DS3 Non-Optical	Other Affiliate	30	25	96.67	96.00
3	SC	DS1	Other Affiliate	49	45	100.00	100.00

April 2005: Percent Installation Appointments Met:

PwC noted that there was no impact to the April 2005 Percent Installation Appointments Met performance measure results for this issue.

Firm Order Confirmation (FOC) Timeliness

- BellSouth includes the dry fiber product in its Firm Order Confirmation Timeliness metric by including records with a network code of "LX/04FCF.X." However, we noted that there were instances of dry fiber that were incorrectly not being included because the records were missing the period between the "F" and the "X" (i.e., they were coded as "LX/04FCFX").

We noted that for November 2003, two records with the network code "LX/04FCFX" were not included in the FOC Timeliness performance metric calculations because there was no period between the 'F' and 'X'. For November 2004 and April 2005, there were zero records with the network code "LX/04FCFX" that should have been included in the performance metric calculations.

- As stated in the SQM, a service request received after 3PM eastern standard time should be given a receipt date of the next business day and a service request confirmed on a weekend or holiday should be given a FOC date of the last previous business day. Requests received after 3 PM Eastern Standard Time will be counted as a "zero day" interval if the FOC is sent by close of business on the next business day. BST identifies zero day intervals as .33 of a day. We noted that BST was not applying this zero day (or .33) interval logic correctly. For example, a service request that was received on Thursday after 3 PM Eastern Standard Time that had a FOC sent on Saturday would be given a FOC interval of one day by BST instead of the correct interval of 0.33 of a day.

We calculated the FOC Timeliness metric allowing zero day intervals, as stated in the SQM, and noted the following differences (Reference Table 27):

Table 27

November 2003: FOC Timeliness

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	AL	DS0	Non-Affiliate	110	110	0.77 days	0.76 days
2	AL	DS1	Non-Affiliate	604	604	0.65 days	0.64 days
3	AL	FGD	Non-Affiliate	47	47	1.52 days	1.51 days
4	FL	DS0	Non-Affiliate	325	325	0.65 days	0.64 days
5	FL	DS1	Non-Affiliate	2246	2246	0.88 days	0.87 days
6	FL	DS1	Other Affiliate	113	113	2.61 days	2.58 days
7	FL	DS3 Optical	Other Affiliate	5	5	14.80 days	14.67 days

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
8	FL	FGD	272 Affiliate	63	63	0.74 days	0.71 days
9	FL	FGD	Non-Affiliate	97	97	1.20 days	1.14 days
10	GA	DS0	Non-Affiliate	263	263	0.57 days	0.56 days
11	GA	DS1	272 Affiliate	34	34	0.63 days	0.62 days
12	GA	DS1	Non-Affiliate	1664	1664	0.83 days	0.82 days
13	GA	DS1	Other Affiliate	31	31	4.18 days	4.16 days
14	GA	DS3 Non-Optical	Non-Affiliate	139	139	2.27 days	2.24 days
15	GA	FGD	Non-Affiliate	128	128	3.03 days	3.01 days
16	KY	FGD	Non-Affiliate	78	78	1.25 days	1.17 days
17	LA	DS0	Non-Affiliate	134	134	0.68 days	0.63 days
18	LA	DS1	272 Affiliate	10	10	0.40 days	0.33 days
19	LA	DS3 Non-Optical	272 Affiliate	39	39	2.25 days	2.24 days
20	LA	FGD	Non-Affiliate	34	34	0.88 days	0.86 days
21	MS	DS1	Non-Affiliate	218	218	1.40 days	1.36 days
22	NC	DS1	Non-Affiliate	1022	1022	0.64 days	0.63 days
23	NC	FGD	272 Affiliate	6	6	0.55 days	0.44 days
24	NC	FGD	Non-Affiliate	106	106	1.01 days	0.98 days
25	SC	DS1	Non-Affiliate	543	543	0.67 days	0.66 days
26	SC	FGD	272 Affiliate	5	5	6.33 days	6.06 days
27	TN	DS0	Non-Affiliate	161	161	0.47 days	0.46 days
28	TN	DS1	Non-Affiliate	704	704	0.69 days	0.68 days

November 2004: FOC Timeliness

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	AL	FGD	272 Affiliate	7	7	1.38 days	1.28 days
2	AL	FGD	Non-Affiliate	83	83	0.68 days	0.66 days
3	FL	DS0	Non-Affiliate	249	249	0.89 days	0.88 days
4	FL	DS1	272 Affiliate	76	76	0.87 days	0.86 days
5	FL	DS1	Non-Affiliate	2842	2842	0.98 days	0.97 days
6	FL	DS3 Non-Optical	Non-Affiliate	169	169	2.70 days	2.69 days
7	GA	FGD	Non-Affiliate	244	244	1.06 days	1.05 days
8	KY	DS1	Non-Affiliate	388	388	1.23 days	1.22 days
9	LA	FGD	Non-Affiliate	76	76	1.93 days	1.90 days
10	MS	FGD	Non-Affiliate	45	45	1.34 days	1.31 days
11	SC	DS1	Non-Affiliate	561	561	1.49 days	1.48 days
12	SC	FGD	Non-Affiliate	83	83	2.08 days	2.07 days
13	TN	DS3 Non-Optical	Non-Affiliate	81	81	3.13 days	3.12 days
14	TN	FGD	Non-Affiliate	87	87	1.18 days	1.16 days

April 2005: FOC Timeliness

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	FL	DS1	272 Affiliate	120	120	0.39 days	0.38 days
2	FL	DS1	Other Affiliate	169	169	0.67 days	0.66 days
3	FL	DS3 Non-Optical	Other Affiliate	31	31	1.56 days	1.49 days
4	GA	DS1	Other Affiliate	55	55	0.92 days	0.90 days
5	GA	DS3 Non-Optical	Other Affiliate	100	100	0.85 days	0.75 days
6	KY	FGD	Non-Affiliate	55	55	2.04 days	2.02 days
7	LA	FGD	Non-Affiliate	74	74	1.19 days	1.18 days

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
8	NC	DS1	Other Affiliate	47	47	1.57 days	1.55 days
9	NC	FGD	Non-Affiliate	299	299	0.81 days	0.80 days
10	SC	FGD	Non-Affiliate	75	75	1.64 days	1.63 days
11	TN	DS1	272 Affiliate	51	51	1.22 days	1.21 days
12	TN	DS1	Other Affiliate	12	12	2.92 days	2.80 days
13	TN	DS3 Non-Optical	Other Affiliate	17	17	1.33 days	1.29 days
14	TN	FGD	Non-Affiliate	150	150	1.10 days	1.09 days

Average Intervals – Requested / Offered / Installation

- When the IXC requested due date or BellSouth offered due date were more than a year after the order received date, the offered and requested intervals calculated by BellSouth did not exclude all weekends and holidays and as a result, the intervals were greater than those calculated by PwC.

We calculated the Average Intervals – Requested /Offered measures by excluding all weekends and holidays from the interval calculations, and noted the following differences (Reference Table 28):

Table 28

November 2003: Average Intervals – Requested / Offered / Installation

No.	Measure	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Requested	FL	DS1	Other Affiliate	231	231	12.26	12.19
2	Requested	GA	DS1	Other Affiliate	73	73	15.77	15.60
3	Requested	LA	DS1	Other Affiliate	26	26	27.31	26.88
4	Requested	MS	DS1	Other Affiliate	16	16	40.63	39.88
5	Offered	FL	DS1	Other Affiliate	231	231	11.26	11.21
6	Offered	KY	DS3 Non-Optical	Non-Affiliate	6	6	32.33	32.17

November 2004: Average Intervals – Requested / Offered / Installation

No.	Measure	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Requested	FL	DS1	Other Affiliate	150	150	11.83	11.76
2	Requested	FL	DS3 Non-Optical	Other Affiliate	29	29	18.24	18.10
3	Requested	GA	DS1	Other Affiliate	103	103	14.58	14.49
4	Requested	NC	DS1	Non-Affiliate	786	786	28.97	28.60
5	Requested	SC	DS3 Non-Optical	Non-Affiliate	53	53	32.98	32.87
6	Offered	FL	DS1	Other Affiliate	150	150	11.94	11.87
7	Offered	FL	DS3 Non-Optical	Other Affiliate	29	29	16.59	16.52
8	Offered	GA	DS1	Other Affiliate	103	103	12.22	12.17
9	Offered	NC	DS1	Non-Affiliate	786	786	29.07	28.70
10	Offered	TN	DS3 Non-Optical	Non-Affiliate	46	46	23.67	23.63

April 2005: Average Intervals – Requested / Offered / Installation

No.	Measure	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Requested	AL	DS1	Other Affiliate	64	64	25.34	25.16

- As stated in the SQM, activity starting on a weekend or holiday will reflect a start date of the next business day, and activity ending on a weekend or holiday will be calculated with an end date of the last previous business day for the Average Intervals – Requested/Offered/Installation measure. Activity starting on a Friday and ending on a Saturday should be given a zero day interval. We noted that BST did not apply this zero day interval correctly in some instances. For example, activity beginning on a Friday and ending on a Saturday would be given an interval of one day by BST instead of the correct interval of zero days.

We calculated the Average Intervals metric with the end date as the last previous business day when activity ended on a weekend or holiday, as stated in the SQM, and noted the following differences (Reference Table 29):

Table 29

November 2003: Average Intervals – Requested / Offered / Installation

No.	Measure	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Requested	TN	DS3 Optical	Non-Affiliate	2	2	6.00	5.50

November 2004: Average Intervals – Requested / Offered / Installation

No.	Measure	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Requested	SC	FGD	Non-Affiliate	43	43	16.93	16.91
2	Offered	SC	FGD	Non-Affiliate	43	43	17.28	17.26
3	Installation	SC	FGD	Non-Affiliate	43	43	25.53	25.51

Percent Installation Appointments Met

- We noted that for the Percent Installation Appointments Met metric calculation, BST identifies orders to be included in the denominator where the Completion Date is during the reporting period. We noted that the SQM states that the denominator for the Percent Installation Appointments Met metric should be determined using “orders committed to completion during the reporting period.” We inquired of management and management indicated that although the wording is not particularly clear, BST interpreted the wording to mean that they should only include records that were completed in the specified reporting month.

We included only orders completed during the report period when calculating the Percent Installation Appointments Met metric. Therefore, we noted no difference between our results and those reported by BST for all states in November 2003, November 2004, and April 2005, based on the application of this criterion.

- The SQM for the Percent Installation Appointments Met metric states to exclude "misses for end user reasons except ‘SP’ and ‘SL’." Management interpreted this to mean that misses for end user reasons should be excluded from the count of missed appointments and therefore included in the numerator and denominator calculations. BST includes the record because it was met by BST and the “missed appointments” only include records where BST missed the appointment.

When calculating the Percent Installation Appointments Met metric, we counted end user misses as “met” appointments and included them in both the numerator and denominator

calculations. Therefore, we noted no difference between our results and those reported by BST for all states in November 2003, November 2004, and April 2005, based on the application of this criterion.

- The SQM defines the numerator of the Percent Installation Appointments Met metric as the number of orders completed on or before the BellSouth committed due date. We noted that BST incorrectly included orders that missed their due date due to a BST error – these orders are identified with a missed appointment code beginning with ‘E’.

When calculating the Percent Installation Appointments Met metric, we excluded orders that missed their due date due to a BST error from the numerator, as stated in the SQM, and noted the following differences (Reference Table 30):

Table 30

November 2003: Percent Installation Appointments Met:

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	FL	DS0	Other Affiliate	11	11	100	72.73
2	FL	DS1	Other Affiliate	281	281	98.58	74.38
3	FL	DS3 Non-Optical	Other Affiliate	22	22	95.45	59.09
4	FL	DS3 Optical	Other Affiliate	44	44	100	93.18
5	GA	DS0	Other Affiliate	18	18	100	94.44
6	GA	DS1	Non-Affiliate	1278	1278	98.51	98.44
7	GA	DS1	Other Affiliate	76	76	96.05	92.11
8	GA	DS3 Non-Optical	Other Affiliate	27	27	96.3	70.37
9	GA	DS3 Optical	Other Affiliate	30	30	100	76.67
10	KY	DS3 Optical	Other Affiliate	6	6	100	50.00
11	LA	DS1	Other Affiliate	44	44	95.45	93.18
12	LA	DS3 Non-Optical	Other Affiliate	1	1	100	0.00
13	MS	DS1	Other Affiliate	22	22	90.91	86.36
14	MS	DS3 Non-Optical	Other Affiliate	5	5	60	40.00

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
15	MS	DS3 Optical	Other Affiliate	6	6	83.33	33.33
16	NC	DS3 Non-Optical	Non-Affiliate	44	44	95.45	93.18
17	SC	DS1	Other Affiliate	58	58	100	96.55
18	TN	DS1	Other Affiliate	72	72	98.61	95.83

November 2004: Percent Installation Appointments Met:

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	AL	DS1	Non-Affiliate	363	363	93.39	93.11
2	FL	DS0	Other Affiliate	20	20	75.00	65.00
3	FL	DS1	Other Affiliate	240	240	91.67	87.92
4	FL	DS3 Non-Optical	Non-Affiliate	99	99	92.93	91.92
5	FL	DS3 Non-Optical	Other Affiliate	30	30	96.67	90.00
6	FL	DS3 Optical	Other Affiliate	10	10	90.00	80.00
7	GA	DS0	Other Affiliate	27	27	96.30	88.89
8	GA	DS1	Non-Affiliate	1690	1690	98.11	96.51
9	GA	DS1	Other Affiliate	137	137	96.35	92.70
10	GA	DS3 Non-Optical	Non-Affiliate	95	95	100.00	97.89
11	GA	DS3 Non-Optical	Other Affiliate	28	28	96.43	78.57
12	GA	DS3 Optical	Other Affiliate	30	30	100.00	93.33
13	LA	DS1	Non-Affiliate	400	400	99.00	96.50
14	MS	DS0	Other Affiliate	15	15	100.00	93.33
15	MS	DS1	Other Affiliate	37	37	89.19	81.08
16	MS	DS3 Non-Optical	Non-Affiliate	21	21	100.00	95.24
17	MS	DS3 Optical	Other Affiliate	3	3	100.00	33.33

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
18	NC	DS1	Non-Affiliate	856	856	98.01	97.90
19	SC	DS3 Non-Optical	Other Affiliate	7	7	100.00	85.71
20	TN	DS1	Other Affiliate	40	40	95.00	92.50
21	TN	DS3 Non-Optical	Other Affiliate	14	14	92.86	85.71

April 2005: Percent Installation Appointments Met:

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	AL	DS1	Other Affiliate	84	84	97.62	96.43
2	FL	DS1	272 Affiliate	22	22	100	95.45
3	FL	DS1	Other Affiliate	238	238	96.22	91.60
4	FL	DS3 Non-Optical	Other Affiliate	55	55	100	98.18
5	FL	DS3 Optical	Other Affiliate	12	12	100	83.33
6	GA	DS0	Other Affiliate	39	39	94.87	92.31
7	GA	DS3 Non-Optical	Other Affiliate	103	103	100	99.03
8	GA	DS3 Optical	Other Affiliate	20	20	100	40.00
9	KY	DS1	Non-Affiliate	507	507	95.46	95.27
10	LA	DS0	Other Affiliate	8	8	100	87.50
11	LA	DS1	Other Affiliate	36	36	97.22	94.44
12	LA	DS3 Optical	Other Affiliate	4	4	100	50.00
13	NC	DS0	Other Affiliate	14	14	85.71	78.57
14	NC	DS1	Other Affiliate	87	87	98.85	97.70
15	NC	DS3 Non-Optical	Other Affiliate	18	18	100	88.89
16	SC	DS1	Non-Affiliate	427	427	98.36	97.42
17	SC	DS1	Other Affiliate	26	26	96.15	92.31

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
18	SC	DS3 Non-Optical	Non-Affiliate	53	53	100	96.23
19	TN	DS1	Other Affiliate	56	56	100	98.21
20	TN	DS3 Non-Optical	Non-Affiliate	61	61	98.36	96.72
21	TN	DS3 Non-Optical	Other Affiliate	21	21	100	95.24
22	TN	DS3 Optical	Other Affiliate	9.00	9	100.00	66.67

Average PIC Change Interval

- We noted that BellSouth is excluding records with a missed appointment code of 'SL' from the Average PIC Change Interval measure. An 'SL' code denotes that the customer requested a later than offered due date. The SQM does not state that PIC change requests with this missed appointment code should be excluded from the measure.

We calculated the Average PIC Change Interval measure including the missed appointment code of 'SL' and noted the following differences (Reference Table 31):

Table 31

November 2003: Average PIC Change Interval

No.	State	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Regional	272 Affiliate	329,382	330,834	11.47	11.71
2	Regional	Non-Affiliate	348,261	348,817	5.26	5.40

November 2004: Average PIC Change Interval

No.	State	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Regional	272 Affiliate	222,430	223,698	9.23	9.66
2	Regional	Non-Affiliate	189,172	189,420	7.23	7.32

April 2005: Average PIC Change Interval

No.	State	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Regional	272 Affiliate	214,111	215,012	11.06	11.29
2	Regional	Non-Affiliate	161,006	160,627	6.94	7.01

- The SQM defines the denominator for the P-3 Average PIC Change Interval metric as "PIC changes completed in the reporting period." We noted that BellSouth is including only those records with both an application (i.e., receipt) date and completion date within the reporting month. As a result, there were orders that would not be included in any month's results because the application date and completion date are not in the same month. For example, if an order is received in October 2003 but is not completed until November 2003, it would not be included in the results for October 2003 or November 2003.

We calculated the Average PIC Change Interval measure including only those PIC change requests completed in the reporting period, as stated in the SQM, and noted the following differences (Reference Table 32):

Table 32

November 2003: Average PIC Change Interval

No.	State	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Regional	272 Affiliate	329,382	335,516	11.47	12.98
2	Regional	Non-Affiliate	348,261	350,495	5.26	6.06

November 2004: Average PIC Change Interval

No.	State	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Regional	272 Affiliate	222,430	227,019	9.23	11.01
2	Regional	Non-Affiliate	189,172	190,998	7.23	8.05

April 2005: Average PIC Change Interval

No.	State	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Regional	272 Affiliate	214,111	218,950	11.06	15.32
2	Regional	Non-Affiliate	161,006	162,860	6.94	12.09

- We noted that the following business rules contained in the SQM for the Average PIC Change Interval measure were not specifically applied by BST to the metric calculations:

Exclude "Invalid PIC Change Requests"

Exclude "PIC Change Requests processed manually"

We inquired of management and management provided the following response:

"Invalid PIC Change Requests will not flow through CARE; therefore, these records are not received in the PMAP data.

"PIC Change Requests processed manually account for all the requests received through the RSC (residential service center), which are part of the affiliate numbers. These records cannot be excluded. These exclusions were questioned in the previous audit and at the time of the findings, a request was submitted to change the SQM to delete these exclusions. Currently, that request is still pending."

- For the Average PIC Change Interval for April 2005, BellSouth changed its logic to pull the telephone and PIC/LPIC information from a different data table than what was used in November 2003 and November 2004. We noted a data integrity issue with the table used in April 2005, which caused BellSouth to report multiple PIC/LPIC changes for a unique PIC/LPIC request, and in some cases, the PIC/LPIC changes were reported in the incorrect affiliate or non-affiliate group.

We calculated the Average PIC Change Interval measure for April 2005 using the table used by BellSouth in November 2003 and November 2004, and noted the following differences (Reference Table 33):

Table 33

April 2005: Average PIC Change Interval

No.	State	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	Regional	272 Affiliate	214,111	214,078	11.06	11.06
2	Regional	Non-Affiliate	161,006	160,365	6.94	6.86

Trouble Report Rate

- We noted that BellSouth used the Major Customer Number field to identify unique circuits for the Trouble Report Rate measure. This is a free form field and there are no validations performed on the data input into this field. As a result of BST using this field to identify unique circuits, we noted that the same circuits were being counted more than once.
- The SQM defines in-service circuits as the denominator criteria for the Trouble Report Rate measure. However, for the FGD product, we noted that BST included pending circuits that were not in-service in the metric result calculations.

We calculated the Trouble Report Rate metric without using the Major Customer Number field as a unique circuit identifier and by including only in-service circuits in the denominator, as stated in the SQM, and noted the following differences (Reference Table 34):

Table 34

November 2003: Trouble Report Rate

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	GA	DS0	Non-Affiliate	12,418	12,363	3.66 %	3.68 %
2	GA	DS1	272 Affiliate	1,767	1,765	1.08 %	1.08 %
3	GA	DS1	Non-Affiliate	59,544	59,459	1.76 %	1.76 %
4	GA	DS1	Other Affiliate	887	886	3.61 %	3.61 %
5	GA	DS3 Non-Optical	Non-Affiliate	5,424	5,423	0.72 %	0.72 %
6	GA	FGD	272 Affiliate	27,911	27,719	0.08 %	0.08 %

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
7	GA	FGD	Non-Affiliate	205,718	205,670	0.00 %	0.00 %
8	KY	DS0	Non-Affiliate	4,412	4,411	2.65 %	2.65 %
9	KY	DS1	Non-Affiliate	13,816	13,815	1.90 %	1.90 %
10	MS	DS1	Non-Affiliate	8,881	8,877	2.36 %	2.37 %
11	SC	DS0	Non-Affiliate	5,316	5,313	2.61 %	2.62 %
12	TN	DS0	Non-Affiliate	7,311	7,305	2.91 %	2.92 %
13	TN	DS1	272 Affiliate	986	980	0.91 %	0.92 %
14	TN	DS1	Non-Affiliate	30,549	30,526	1.59 %	1.59 %
15	TN	DS1	Other Affiliate	445	444	5.17 %	5.18 %
16	TN	DS3 Non-Optical	Non-Affiliate	2,494	2,493	0.72 %	0.72 %
17	TN	FGD	272 Affiliate	16,103	16,007	0.01 %	0.01 %
18	TN	FGD	Non-Affiliate	107,162	107,162	0.03 %	0.02 %

November 2004: Trouble Report Rate

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	GA	DS0	Non-Affiliate	10,396	10,353	3.08 %	3.09 %
2	GA	DS1	272 Affiliate	2,124	2,121	0.38 %	0.38 %
3	GA	DS1	Non-Affiliate	59,943	59,855	1.86 %	1.86 %
4	GA	DS1	Other Affiliate	965	964	5.91 %	5.91 %
5	GA	DS3 Non-Optical	Non-Affiliate	5,952	5,950	0.60 %	0.61 %
6	GA	FGD	272 Affiliate	31,944	31,632	0.02 %	0.02 %
7	GA	FGD	Non-Affiliate	196,314	196,146	0.01 %	0.01 %
8	KY	DS1	Non-Affiliate	14,302	14,301	2.08 %	2.08 %
9	KY	DS1	Other Affiliate	142	141	1.41 %	1.42 %
10	MS	DS1	Non-Affiliate	9,281	9,278	3.12 %	3.13 %
11	SC	DS0	Non-Affiliate	4,505	4,502	1.89 %	1.89 %
12	TN	DS0	Non-Affiliate	6,031	6,023	2.79 %	2.79 %
13	TN	DS1	272 Affiliate	1,560	1,547	0.90 %	0.90 %
14	TN	DS1	Non-Affiliate	30,940	30,919	1.60 %	1.60 %
15	TN	DS3 Non-Optical	Non-Affiliate	2,723	2,722	0.73 %	0.73 %
16	TN	FGD	272 Affiliate	25,884	25,668	0.02 %	0.02 %
17	TN	FGD	Non-Affiliate	95,569	95,497	0.00 %	0.00 %

April 2005: Trouble Report Rate

No.	State	Product	Affiliate Grouping	BST Volume	PwC Volume	BST Results	PwC Results
1	AL	FGD	272 Affiliate	28,464	23,016	0.00 %	0.00 %
2	AL	FGD	Non-Affiliate	77,325	75,875	0.00 %	0.00 %
3	FL	FGD	272 Affiliate	56,177	55,913	0.02 %	0.02%
4	FL	FGD	Non-Affiliate	258,872	249,914	0.00 %	0.00 %
5	GA	DS0	Non-Affiliate	9,524	9,481	3.82 %	3.84 %
6	GA	DS1	272 Affiliate	2,334	2,331	0.81 %	0.82 %
7	GA	DS1	Non-Affiliate	61,587	61,500	2.17 %	2.18 %
8	GA	DS1	Other Affiliate	1,023	1,022	6.16 %	6.16 %
9	GA	DS3 Non-Optical	Non-Affiliate	6,156	6,155	0.65 %	0.65 %
10	GA	DS3 Optical	Non-Affiliate	716	714	0.00 %	0.00%
11	GA	FGD	272 Affiliate	34,771	32,948	0.00 %	0.00 %
12	GA	FGD	Non-Affiliate	195,057	193,027	0.00 %	0.00 %
13	KY	DS1	Non-Affiliate	14,434	14,432	2.00 %	2.00 %
14	KY	DS1	Other Affiliate	155	154	7.10 %	7.14 %
15	KY	FGD	272 Affiliate	14,736	13,896	0.00 %	0.00 %
16	KY	FGD	Non-Affiliate	63,217	61,944	0.00 %	0.00 %
17	LA	FGD	272 Affiliate	24,417	24,393	0.07 %	0.00 %
18	LA	FGD	Non-Affiliate	80,137	78,625	0.00 %	0.00 %
19	MS	DS1	Non-Affiliate	9,260	9,258	3.62 %	3.62 %
20	MS	FGD	272 Affiliate	23,181	22,941	0.00 %	0.00 %
21	MS	FGD	Non-Affiliate	49,515	47,378	0.00 %	0.00 %
22	NC	FGD	272 Affiliate	20,928	19,560	0.00 %	0.00 %
23	NC	FGD	Non-Affiliate	122,951	120,601	0.00 %	0.00 %
24	SC	DS0	Non-Affiliate	4,180	4,177	2.56 %	2.56 %
25	SC	FGD	Non-Affiliate	67,575	66,496	0.00 %	0.00 %
26	TN	DS0	Non-Affiliate	5,642	5,635	3.21 %	3.21 %

No.	State	Product	Affiliate Grouping	BST Volume	PwC Volume	BST Results	PwC Results
27	TN	DS1	272 Affiliate	1,792	1,779	1.00 %	1.01 %
28	TN	DS1	Non-Affiliate	30,981	30,961	1.89 %	1.89 %
29	TN	DS3 Non-Optical	Non-Affiliate	2,815	2,814	0.43 %	0.43 %
30	TN	FGD	272 Affiliate	26,340	25,884	0.00 %	0.00 %
31	TN	FGD	Non-Affiliate	92,982	90,957	0.00 %	0.00 %

Average Repair Interval

- For the FGD product for the Average Repair Interval measure, we noted that BellSouth used the incorrect field to identify the carrier that owns the circuit. As a result, BellSouth reported incorrect affiliate groupings in some cases.

We calculated the Average Repair Interval metric using the owner of the circuit to identify the affiliate grouping and noted the following differences (Reference Table 35):

Table 35

November 2003: Average Repair Interval

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	LA	FGD	Non-Affiliate	7	8	1.03	0.91
2	TN	FGD	Non-Affiliate	33	24	0.34	0.23

November 2004: Average Repair Interval

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	GA	FGD	Non-Affiliate	10	16	0.30	0.21

April 2005: Average Repair Interval

No.	State	Product	Affiliate Group	BST Volume	PwC Volume	BST Results	PwC Results
1	LA	FGD	Non-Affiliate	0	1	0.00	2.62
2	MS	FGD	Non-Affiliate	0	1	0.00	2.28

- We inquired of management as to how and where BST makes available to unaffiliated entities information regarding service intervals in providing any service to the section 272 affiliate, the BOC or other BOC affiliates, and non-affiliates. Management provided the following response:

"BST makes service interval information available to the section 272 affiliate, other affiliates and non-affiliates in the same manner. The interval guide can be found on the

www.interconnection.bellsouth.com website. BST offers service intervals based upon the service type and the quantity ordered.

Any unaffiliated entity may request to see aggregate information regarding service intervals BST sustains in fulfilling service requests to itself or its affiliates. This request should be made in writing to the unaffiliated entity's account team manager, if the unaffiliated entity has one, or to the BST-Sales AVP - Interconnection Services, 675 West Peachtree St., Atlanta, GA 30375. The review may take place during normal business hours, 8:30 a.m. to 5:00 p.m. Monday - Friday. Upon receipt of the written request from the unaffiliated entity, BST personnel will contact the requesting entity to establish a date and time for the review. To allow BST to accommodate the request comfortably, the request should include the number of people who plan on participating in a review of the information. The requesting unaffiliated entity may take notes while the service interval information is being made available; however, copies of the information will not be provided.

If any information is publicly available on BellSouth's website, BST personnel will direct the requesting unaffiliated entity to the appropriate web link. The information provided will be substantially in the format of Appendix C of In the Matter of Implementation of the Non-Accounting Safeguards of section 271 and 272 of the Communications Act of 1934, as amended, CC Docket No. 96-149, First Report and Order and Further Notice of Proposed Rulemaking, 11FCC Rcd 21905 (1997). Although this format is part of the Commission's Further Notice of Proposed Rulemaking proceeding, and not a required format, it provides guidance on the format necessary to fulfill the disclosure requirement."

Management indicated that no entity has requested service interval information, or any of the other section 272 reports that BST produces, for service that BST provides to the section 272 affiliate, other affiliates, or non-affiliates since the original FCC Oversight Team reviewed data in April/May 2003 when the section 272 reports were first developed.

We read the standard service intervals for various products and services contained on the Interconnection website at www.interconnection.bellsouth.com. From this page, users can select, in the Guides section, ordering procedures for IXC's and CLECs. The guides document options for service intervals (including the standard service interval) available for various products. We read the Interconnection website and noted that it contains the standard service intervals available for special and switched access products/services.

Objective IX: Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under Section 272 that operates in the same market.

1. We obtained a list of exchange access services and facilities, with their related rates, offered to the section 272 affiliate. We inquired of management the types of media used to inform unaffiliated entities of the availability of these services. Management indicated, the services are offered in accordance with the rates, terms and conditions contained within the tariff or contract referenced with each service.

Management also provided other informational media used to inform unaffiliated entities of the availability of these services include:

- BellSouth Interconnection Services brochures. We noted in our reading of the brochures that, price, terms and conditions were not included. Potential customers are directed to contact an Account Executive for further details about specific product information and pricing.
- An ongoing newsletter is mailed to customers and posted on BellSouth's Interconnection website at www.interconnection.bellsouth.com. We noted in our reading of the newsletter that, price, terms and conditions were not included. Potential customers are directed to contact an Account Executive for further details about specific product information and pricing.

We read the informational media used to inform unaffiliated entities of the availability of exchange access services and facilities and noted the services were priced pursuant to the same tariffs and contracts as the section 272 affiliate.

2. (a) We obtained from management a list of exchange access services and facilities that were purchased during the Audit Test Period from the BOC/ILEC(s) by both an unaffiliated entity and any section 272 affiliate in any state. From the list of purchased services, we determined the top 10 services that were billed to unaffiliated third parties based on the highest billing volume in dollars. The top 10 services are (Reference Table 36):

Table 36

No.	Top Ten Services Purchased	Description
1	DS1 High Capacity (BellSouth SPA DS1)	Transport data service for the transmission of 1.544 Mbps isochronous serial data.

No.	Top Ten Services Purchased	Description
2	BellSouth SWA Service	Switched Access
3	LightGate Service	A high capacity digital transport service consisting of DS3, DS1, STS-1, OC-3, OC-12, OC-48 and OC-192 channels.
4	SMARTRing Service (BellSouth SPA Dedicated Ring)	Dedicated, high capacity, network designed to provide increased reliability and functionality via a self-healing ring topology.
5	BellSouth Operator Assistance Service	Provides access to the Operator service location, use of the Operator service equipment and operators to furnish operator assistance to end users.
6	Digital Data Access (BellSouth SPA DS0 Digital Data)	Channel for duplex 4-wire transmission of synchronous serial data at various rates up to 64Kbps.
7	Voice Grade	Channel which provides voice frequency transmission capability.
8	Managed Shared Frame Relay Service	A packet-switched data service allowing for the interconnection of local area networks or other compatible customer equipment.
9	SMARTPath DS3 Transport Service	DS3 shared ring service.
10	SMARTPath Service	Shared high capacity network service capable of providing a 1.544 Mbps (DS1) port link with high performance and reliability parameters and a level of redundancy/diversity designed to limit a single event from interrupting service.

For those top 10 services, we inquired of management and management indicated that those services were billed out of the Carrier Access Billing System (“CABS”).

(b) (1) For the CABS billing system, we obtained from management the descriptions of key controls, specifically the controls over (1) rate updates, (2) billing verification, and (3) journalization. The following is the summary of the key rate updates, bill verification, and journalization controls over CABS:

(1) Rate Updates

- *“Rate File Implementers (“RFI”) receive requested changes in the form of change reports or center requests. Upon receipt, the RFI analyzes, interprets the contract, and determines if all the necessary information is available. If additional information is required, the RFI gathers that information prior to proceeding with the process. Once all the appropriate information is gathered, the RFI passes the request to a clerk for contract review. At this point, the RFI enters the change into the change log spreadsheet for tracking. The change log spreadsheet is used to track and verify, at month end, that all received and required wholesale rate changes are completed.*
- *During the contract review, the clerk compares the new rates to the existing rates to determine what specific rates need to be amended or created. At this point, the request is passed to another clerk who enters the rates into Product Catalog. Upon completion of the data entry portion, the Contract is sent back to the RFI for verification. Finally, on the effective date of the contracts, an RFI approves the rates. Prior to any rate being moved to production, the rate must be verified and approved by the RFI.*
- *Tariff rate are initiated from the State PSC’s (Public Service Commission) and the FCC. The Regulatory group in Interconnection Services (“ICS”) files and monitors approvals for all tariff rates changes. When a new tariff is filed with the Regulatory authority, ICS notifies BBI (BellSouth Billing, Incorporated) of the pending change. At this point, the RFI enters the change into the tariff log spreadsheet for tracking. The tariff log spreadsheet is used to track and verify, at month end, that all changes are received and that required changes are completed. At this point, the rate is in a pending status.*
- *Once rates are uploaded into CABS, processing resumes as usual. In the event a new service is added to a customer and a rate is not assigned to that service, a 403 error is issued. 403 errors are issued to BBI and investigated by Rate File Implementers, when necessary changes are made to correct the rate file to fix the error.”*

(2) Bill Verification

- *“Automated bill verifications are performed for CABS bills, and variances are investigated by BellSouth Billing Inc. staff.”*

(3) Journalization - The journalization controls are the same for both CRIS and CABS billing systems. Reference Objective VII Procedure 4 for the summary of key controls and testing of journalization controls.

We tested the key rate updates, bill verification, and journalization controls over the CABS billing system and noted the following (Reference Table 37):

Table 37

No.	Control Description	Results
Rate Updates		
1	The change log spreadsheet is used to track and verify, at month end, that all received and required wholesale (access) rate changes are completed.	No exceptions noted for sample selected.
2	Prior to any wholesale (access) rate being moved to production, the rate must be verified and approved by the RFI. This control is evidenced by the approval of a rate within product catalog.	No exceptions noted for sample selected.
3	The tariff log spreadsheet is used to track and verify, at month end, that all changes are received and that required changes are completed.	No exceptions noted for sample selected.
4	During CABS processing, 403 errors are issued when services are added to customer's account without an associated rate. These errors are issued to BBI and investigated by Rate File Implementers, when necessary changes are made to correct the rate file to fix the error. This control is evidenced through the errors listed on error reports.	No exceptions noted for sample selected.
Bill Verification		
5	Automated bill verifications are performed for CABS bills, and variances are investigated by BellSouth Billing Inc. staff.	No exceptions noted for sample selected.
Journalization		
6	Refer to testing in Objective VII procedure 4.	

- (2) We randomly selected one section 272 affiliate and one unaffiliated third party invoice for each of the top 10 services identified in procedure 4a above. For the respective services, we traced the section 272 affiliate and unaffiliated third party invoice to the appropriate billing system to confirm that each transaction was billed

using the same system. We obtained screen prints of the invoices that came directly from CABS as evidence.

For each of the top 10 services identified above, we compared the rate charged the section 272 affiliate to the rate charged the unaffiliated third party and noted no instances where the unaffiliated third party rate was greater than the rate charged the section 272 affiliate.

- (c) We inquired of management and management indicated that none of the services selected used different systems to bill the section 272 affiliates and unaffiliated third parties.
- (d) We obtained a description of BSLD's accounts payable processes and controls to record and issue payments to the BOC/ILEC. Reference Objective VII Procedure 4 for the descriptions and testing of key controls over BSLD's accounts payable processes.

Objective X: Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carrier for such service.

1. We obtained a list of interLATA services offered by BST consisting of:

- Enhanced 911
- National Directory Assistance
- Reverse Search
- Stand Alone Signaling
- Incidental InterLATA Service for Schools in Louisiana
- Enhanced Directory Assistance
- Region-wide Messaging
- Virtual Campus Solution.

We discussed the list with BST management who indicated that the list was complete. We compared services appearing on the list with the interLATA services disclosed in BST's Cost Allocation Manual ("CAM") and noted no differences. We compared the non-regulated interLATA services listed in BST's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA information services allowed under FCC Order and noted no differences.

2. We selected the entire population of eight interLATA services offered by BST in Procedure 1 above, for testing.

We inquired of management and management indicated that only 6 of 8 services provided in Procedure 1 involved imputation. For 2 of the 8 services, management indicated the following:

"Region-Wide Messaging: The interLATA portion of this service is not provided over BST's own facilities. InterLATA facilities are purchased from an IXC. The charges from the IXC are coded directly to nonregulated operations. There is no use of BST facilities. Hence, there is no 'Imputation'."

"Stand-Alone Signaling (SS7): SS7 does not have uniquely divisible regulated and nonregulated service portions. Hence, to satisfy the federal requirement an allocation [of] the "regulated" tariff revenue must be made to nonregulated operations and an allocation of the related tariff must be made to nonregulated operations. The basis for

both allocations is identical. The net result of the allocation of revenue and the allocation of the tariff charge is zero. Zero entries are not made.”

For 6 of 8 services, we randomly selected three months from June 1, 2003 to February 28, 2005, August 2003, May 2004, and January 2005 and performed the following:

- We obtained management’s imputation calculations.
- We compared the rates in the imputation calculations to the tariff rate.
- We compared the imputation calculation to actual amounts recorded in the general ledger and verified that the journal entry correctly debited a non-regulated revenue account and credited a regulated revenue account.

E911

- We requested from management the August 2003, May 2004, and January 2005 E911 calculations and journal entries. Management provided us with the calculation and journal entries for the entire year of 2003, May 2004, and January 2005. We inquired of management and management indicated that errors identified by the company were corrected with a single journal entry. Management also indicated that there were errors in the 2004 E911 calculations. Management indicated that the following remediation activities were performed on E911 during 2004:

“Correcting 2004 E911 billing and developing a more controlled process for more accurate billing was an evolving process from January through December 2004. The following methodologies were identified and implemented during 2004:

- *Methodology to update transport billing for circuit mile changes by circuit id number. This included identification of the appropriate circuits to bill and determination of the applicable Facility Termination Charges.*
- *Methodology to update annual listing.*
- *Methodology to update tariff rates for transport and listings*
- *Methodology to mechanize billing for North Carolina*

The transport portion of the bill reflects the evolving methodology. Beginning with the July bill, the process for calculating transport changed from the simple calculation taking "total circuits for the state" times state rates to a process that considered "individual PSAP ID's" and their associated primary and secondary circuit identifications times the monthly transport rate in the tariff plus the associated Facility Termination charge. Due to the complex nature of this calculation, related corrections had to be handled mechanically in two parts. This two part process executed by the organization that inputs service orders for circuits is necessary not only to handle retroactive corrections, but to update records for subsequent billing

rates and circuit miles. The first part of the correction process reverses the initial billing. The second part of the correction process requires the circuit miles and rates to be recorded back to the originating date for the circuit deployment and to facilitate that circuit's mileage and rate for ongoing billing. Therefore, verification of the transport portion of the bill isn't isolated to a given month but must consider the entire year.

The number of listings should be updated annually in January using December prior year data. Errors were discovered in the number of listing used. Correcting these errors was a multi-month process requiring reversals and new input, similar to the transport corrections. Therefore, to verify the listings portion of the bill you must consider the entire year.

In addition to the corrections made through the mechanized service order/billing processes, adjusting journal entries were made in November and December for items that could not be corrected through the mechanized process and where corrections made through journal entries would not adversely impact ongoing billing."

- We compared the rates used in the imputation calculations with the tariff rates and noted the following:
 - We noted no differences between the rates used in the company's calculation and the tariff rates for the entire year 2003.
 - We noted differences in the rates used in the company's calculation and the tariff rates for May 2004. The difference amounted to \$149,635. Management indicated the following:

"BST performed an extensive, detailed review in 2004 to correct errors. Corrections and resulting billing or journal adjustments were made reflecting a year to date corrections of circuit mileage and tariff rates, not by individual errors for a specific month."
 - There were no differences noted between the rates used in the company's calculation and the tariff rates for January 2005.
- We compared the imputation calculation provided by management to amounts recorded in the general ledger and verified that the journal entry debited a non-regulated revenue account and credited a regulated revenue account. We noted the following:
 - The year end 2003 journal entry did not agree to the company's E911 imputation calculation by \$101,202. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account. Management indicated the following:

“BST discovered this error in December created by initial efforts to work E911 corrections through the billing system. Hence, an ARMIS adjustment was made for the \$101,196.46 error. This adjustment was reflected in BST’s ARMIS 43-03.”

- The May 2004 journal entry did not agree to the company’s E911 imputation calculation by \$1. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.
- The January 2005 journal entry agreed to the Company’s E911 imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.

NDA, EDA and Reverse Search

Management indicated these three services are provisioned, calculated, and journalized together. There are three calculations and entries that are made for the three services: a transport calculation and entry, a database usage calculation and entry, and Operator Service - Automated Call Distribution (associated only with EDA) calculation and entry. We tested each of these calculations and entries individually.

Transport

- We obtained the NDA, EDA and Reverse Search Transport imputation calculations from management.
- We compared the rates used in the imputation calculations with the tariff rates and noted the following:
 - We noted differences in the rates used in the company’s calculation and the tariff rates for August 2003. The difference amounted to \$33,667.
 - There were no differences noted between the rates used in the company’s calculation and the tariff rates for May 2004.
 - There were no differences noted between the rates used in the company’s calculation and the tariff rates for January 2005.
- We compared the imputation calculation provided by management to amounts recorded in the general ledger and verified that the journal entry debited a non-regulated revenue account and credited a regulated revenue account. We noted the following:
 - The August 2003 journal entry agreed to the Company’s NDA, EDA and Reverse Search Transport imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.
 - The May 2004 journal entry agreed to the Company’s NDA, EDA and Reverse Search Transport imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.

- The January 2005 journal entry agreed to the Company's NDA, EDA and Reverse Search Transport imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.

Usage

- We obtained the NDA, EDA and Reverse Search Usage imputation calculations from management.
- We compared the rates used in the imputation calculations with the tariff rates and noted the following:
 - We noted no differences between the rates used in the company's calculation and the tariff rates for August 2003.
 - We noted no differences between the rates used in the company's calculation and the tariff rates for May 2004.
 - We noted no differences between the rates used in the company's calculation and the tariff rates for January 2005.
- We compared the imputation calculation provided by management to amounts recorded in the general ledger and verified that the journal entry debited a non-regulated revenue account and credited a regulated revenue account. We noted the following:
 - The August 2003 journal entry agreed to the Company's NDA, EDA and Reverse Search Usage imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.
 - The May 2004 journal entry agreed to the Company's NDA, EDA and Reverse Search Usage imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.
 - The January 2005 journal entry agreed to the Company's NDA, EDA and Reverse Search Usage imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.

EDA OS-ACD

- We requested the imputation calculations for August 2003, May 2004, and January 2005. Management indicated the company began imputing a new charge associated with EDA in August of 2004, EDA Operator Services - Automated Call Distribution ("EDA OS-ACD"). To test EDA OS-ACD, we randomly selected three months between August 2004 to February 2005, October 2004, December of 2004, and January of 2005.
- We compared the rates used in the imputation calculations with the tariff rates and noted the following:

- There were no differences noted between the rates used in the company's calculation and the tariff rates for October 2004.
- There were no differences noted between the rates used in the company's calculation and the tariff rates for December 2004.
- There were no differences noted between the rates used in the company's calculation and the tariff rates for January 2005.
- We compared the imputation calculation provided by management to amounts recorded in the general ledger and verified that the journal entry debited a non-regulated revenue account and credited a regulated revenue account and noted the following:
 - The October 2004 journal entry agreed to the Company's EDA OS-ACD imputation calculation. We noted that the journal entry debited an expense account and credited a regulated revenue account in the amount of \$505.
 - The December 2004 journal entry agreed to the Company's EDA OS-ACD imputation calculation. We noted that the journal entry debited an expense account and credited a regulated revenue account in the amount of \$177.
 - The January 2005 journal entry agreed to the Company's EDA OS-ACD imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.

Incidental InterLATA Service for Schools in Louisiana

- We requested the imputation calculations for August 2003, May 2004, and January 2005. Management indicated the imputation for this service is calculated and recorded quarterly. We tested the quarter that included our selected months, the third quarter of 2003, the second quarter of 2004, and the first quarter of 2005.
- We compared the rates used in the imputation calculations with the UNE rates and noted the following:
 - We noted differences in the rates used in the company's calculation and the UNE rates for the third quarter 2003. The difference amounted to \$267.
 - We noted differences in the rates used in the company's calculation and the UNE rates for the second quarter 2004. The difference amounted to \$906.
 - There were no differences noted between the rates used in the company's calculation and the UNE rates for first quarter 2005.
- We compared the imputation calculation provided by management to amounts recorded in the general ledger and verified that the journal entry debited a non-regulated revenue account and credited a regulated revenue account. We noted the following:

- The third quarter 2003 journal entry agreed to the Company's Incidental InterLATA Service for Schools in Louisiana imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.
- The second quarter 2004 journal entry agreed to the Company's Incidental InterLATA Service for Schools in Louisiana imputation calculation. We noted that the journal entry debited a regulated revenue account and credited a non-regulated revenue account in the amount of \$15,708.
- The first quarter 2005 journal entry agreed to the Company's Incidental InterLATA Service for Schools in Louisiana imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.

Virtual Campus Solution

- We requested the imputation calculations for August 2003, May 2004, and January 2005. Management indicated the Company began providing the service in January of 2005. We tested the available months during the Audit Test Period, January and February 2005.
- We obtained the Virtual Campus Solutions imputation calculations from management.
- We compared the rates used in the imputation calculations with the tariff rates and noted the following:
 - There were no differences noted between the rates used in the company's calculation and the tariff rates for January 2005.
 - There were no differences noted between the rates used in the company's calculation and the tariff rates for February 2005.
- We compared the imputation calculation provided by management to amounts recorded in the general ledger and verified that the journal entry debited a non-regulated revenue account and credited a regulated revenue account and noted the following:
 - The January 2005 journal entry agreed to the Company's Virtual Campus Solutions imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.
 - The February 2005 journal entry agreed to the Company's Virtual Campus Solutions imputation calculation. We noted that the journal entry debited a non-regulated revenue account and credited a regulated revenue account.

3. For exchange access services, local exchange services, and unbundled network elements, we requested the amount BSLD recorded as expense and recorded by BST as revenue for the 12 months ending February 28, 2005. Management indicated that BST did not provide unbundled network elements to BSLD for the 12 months ending February 28, 2005.

For exchange access services, management indicated the following (Reference Table 38):

Table 38

Total amount the section 272 affiliate recorded and paid to the BOC	The amount of revenue reflected in the BOC's books
\$ 387,791,518.24	\$ 411,813,545.44

We inquired of management and management indicated that the differences can be attributed to invoices that were billed during February 2005 and paid in a subsequent period as well as billing disputes. We noted no differences in the amounts recorded as expense and the amount paid by BSLD to BST.

For local exchange services, management indicated the following (Reference Table 39):

Table 39

Total amount the section 272 affiliate recorded and paid by to the BOC	The amount of revenue reflected in the BOC's/ILEC's books
\$ 11,594,408.55	\$ 12,905,608.88

We inquired of management and management indicated that the differences between the above amounts can be attributed to invoices that were billed during February 2005 and paid in a subsequent period. We noted no differences in the amounts recorded as expense and the amount paid by BSLD to BST.

Objective XI: Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to Section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

1. We obtained a list of interLATA network services and facilities and their related rates offered by BST to the section 272 affiliate. Management indicated that Wholesale National Directory Assistance (“WNDA”) was the only interLATA network service and/or facility rendered by BST to both the section 272 affiliate and unaffiliated entities.

We inquired of management the types of media used to inform unaffiliated entities of the availability of these services. Management indicated the applicable media used to inform unaffiliated entities of the availability of WNDA included:

- BSLD contract posted to BellSouth’s website at www.bellsouthcorp.com/policy/transactions. We noted that price, terms and conditions are included in the contract located on the website.
- BellSouth Interconnection Services brochures. We noted in our reading of the brochures that, price, terms and conditions were not included. Potential customers are directed to contact an Account Executive for further details about specific product information and pricing.
- Magazine advertisements. We noted in our reading of the magazines that, price, terms and conditions were not included. Potential customers are directed to visit the BellSouth Interconnection website at www.interconnection.bellsouth.com/assist. We noted that price, terms and conditions located on the BellSouth Interconnection Website.
- An ongoing newsletter is mailed to customers and posted on BellSouth’s Interconnection website at www.interconnection.bellsouth.com. We noted in our reading of the newsletter that, price, terms and conditions were not included. Potential customers are directed to contact an Account Executive for further details about specific product information and pricing.

We read the informational media used to inform unaffiliated entities of the availability of interLATA network services and facilities and noted the services were priced pursuant to the same tariffs and contracts as the section 272 affiliate.

We compared the list obtained from BST to the list of interLATA services obtained in Objective V/VI, Procedure 4 and Objective X, Procedure 1 and noted no differences.

We inquired of BST management regarding the provisioning of interLATA services without contracts. Management indicated the following,

"BellSouth Telecommunications, Inc. does not provide any InterLATA Services to BellSouth Long Distance, Inc. unless they are pursuant to a written agreement or sold under a tariff. The only InterLATA Services that Section 272 allows BST to offer are InterLATA Information Services and Incidental InterLATA Services, as described in Section 271(g). BST is not allowed to provide, and does not provide, InterLATA Telecommunications Services (unless they are considered Incidental InterLATA Services)."

2. Using the information media obtained in Procedure 1, we selected the informational media to test. We read the media listed in Procedure 1 above and noted that no rates, terms, or conditions were disclosed, except in the contract. We noted that the media sources used to market this service refer the customer to an Account Team Representative for pricing information. The Account Team Representative refers customers to a non-discriminatory rate matrix at the time of inquiry by the customer. We obtained the non-discriminatory rate matrix for the WNDA service that is offered to carriers. We agreed the rates included in the non-discriminatory rate matrix to the rates included on the Provision of Bellsouth National Directory Assistance Services contract between BST and BSLD obtained in Objective V/VI Procedure 4 and noted no differences.
3. (a) We requested and obtained a list of all interLATA services and facilities that were purchased during the Audit Test Period from the BOC/ILEC(s) by both an unaffiliated entity and section 272 in any state. Management indicated that the WNDA was the only interLATA network service and/or facility rendered by BST to both the 272 affiliate and unaffiliated carriers.
 - (b) (1) Management indicated each BOC/ILEC uses the CABS system to bill the section 272 affiliate and unaffiliated entities for WNDA. See summary and testing of the key controls over rate updates, bill verification, and journalization relating to the CABS system in Objective IX, Procedure 2.
 - (2) We randomly selected one section 272 affiliate and one unaffiliated third party invoice for the WNDA. We traced the invoices to the CABS billing system and verified both invoices were billed using the same system.

We compared the rate charged the section 272 affiliate to the rate charged the unaffiliated third party. We noted the same rate was charged to both parties.
- (c) We inquired of management and management indicated that none of the services selected used different systems to bill the section 272 affiliates and unaffiliated third parties.

- (d) We also obtained a description of BSLD's accounts payable processes and controls to record and issue payments to the BOC/ILEC. Reference Objective VII Procedure 4 for the BSLD process descriptions and testing results for the key controls identified by management.

Procedures for Subsequent Events

1. We inquired of management whether companies' processes and procedures have changed since the time of execution of these procedures and May 24, 2005. Management indicated the following:

“To the best of [management’s] knowledge there have been no subsequent events which would impact any of the engagement procedures or the results thereon for the second BellSouth 272 engagement.”

2. We inquired of and obtained written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Management indicated the following:

“To the best of [management’s] knowledge there have been no subsequent events which would impact any of the engagement procedures or the results thereon for the second BellSouth 272 engagement.”

Follow-up Procedures

<p>The following matters were noted in the prior engagement's BellSouth Telecommunications, Inc. Section 272 Biennial Agreed Upon Procedures Report of the independent accounting firm, PricewaterhouseCoopers LLP (PwC), dated November 10, 2003:</p>	<p>Reference the following procedures for results of this engagement.</p>	<p>We inquired of management the actions taken to ensure their non-recurrence or improvement and the effective date of the action. Management indicated:</p>
<p>a. BST customer service representatives failed to follow the prescribed marketing script when responding to in-bound callers. After listening to 100 calls at 5 different Consumer call centers, 30 calls at 1 Small Business call center, and 10 calls at 1 Large Business center, the auditors noted that BST customer service representatives failed to notify callers of their right to choose a long distance carrier other than BellSouth Long Distance in 24 instances. Eight calls at Consumer centers and 16 calls at the Small Business center were noted as exceptions. (Objective VII, Procedure 6)</p>	<p>Objective VII, Procedure 7</p>	<p><i>"Consumer Call Centers:</i></p> <ul style="list-style-type: none"> • <i>Mandatory, annual Section 272 compliance training.</i> • <i>Effective January 16, 2004, implemented revised Consumer process Analysis Team (CPAT) and Center level compliance observation and reporting process.</i> • <i>Regularly scheduled (weekly), call center management calibration observation sessions</i> • <i>Regularly scheduled (weekly), management cross-team observation sessions</i> • <i>12-week Initial Training, which includes Section 272 compliance training, for all new sales associates.</i> • <i>Continuation training through various Consumer publications and team meetings.</i> • <i>On-line access to compliance requirements housed in Compass (Consumer's online reference guide which houses detailed methods and procedures for products, services, compliance, promotions and system guidance).</i> • <i>Remote observation process has been updated and enhanced to determine non-compliance and identify improvement opportunities.</i>

		<ul style="list-style-type: none"> • <i>Disciplinary action is taken, in accordance with the CWA Working Agreement, for non-compliance.</i> <p><i>“Small Business Call Centers:</i></p> <ul style="list-style-type: none"> • <i>Mandatory annual employee compliance training.</i> • <i>Team manager side-by-side observations for compliance observations are included in monthly schedules</i> • <i>Triad with branch manager, team manager, and sales associate on side-by-sides to ensure customer contact meets compliance regulations included in team manager monthly schedules</i> • <i>13-week initial training including compliance that is covered before sales associates are allowed to contact customers.</i> • <i>Minimum 30-day incubation period for new sales associates with close monitoring and coaching.</i> • <i>Continuation training through various communication/training publications and team meetings.</i> • <i>On-line access to compliance requirements housed in ORBIT (SBS/BBS online reference guide which houses detailed methods and procedures for products, services, compliance, promotions and system guidance).</i> • <i>Training was revised in November 2003 to reinforce 272 guidelines</i> • <i>Equal Access scripts were added to ROS (Regional Ordering System) November 2003.</i> • <i>Remote Observation Process was implemented in November 2003 and has been updated and enhanced to determine non-</i>
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		<p><i>compliance and identify improvement opportunities</i></p> <ul style="list-style-type: none"> • <i>Disciplinary action is taken for non-compliance. BellSouth Small Business Services added language in December 2003 for failure to comply with all required disclosure statements such as the 272 rules to the Professional Performance Standards. These standards are covered with all newly hired sales associates and re-covered with all sales associates as changes are made."</i>
<p>b. PwC analyzed all 34 written agreements between BST and its section 272 affiliate, along with 64 amendments. The auditors compared information in the agreements and amendments with data posted on BellSouth's web sites and found that not all postings were timely, some website data differed from written agreements, and omissions and inaccuracies were noted in some postings:</p> <ul style="list-style-type: none"> • 25 of the 98 posted agreements and amendments (34 agreements and 64 amendments) were not posted within the 10-day timeframe; for 5 of the 98 posted agreements and amendments, posting data differed from the written agreements; and 21 of the 98 posted agreements and amendments did not contain required disclosures for fully distributed cost elements (material cost, full loading and overhead costs). (Objective V/VI, Procedure 5) 	Objective V/VI, Procedure 5	<ul style="list-style-type: none"> • <i>"Retrained individuals responsible for initiating transactions</i> • <i>Redirected contract negotiations to Carrier Relations personnel</i> • <i>Modified internal posting procedures to post scanned copies of executed contracts instead of converted word files</i> • <i>Clarified definition of "Effective Date"</i> <p>BSLD management further responds that the definition of "Effective Date" has been clarified to mean "10 days from second signature date in terms of postings"</p>
<p>c. PwC noted the following imputation errors: for the NDA service, the tariff rates did not match the rates that were being applied for the months of June - November 2002 and March of 2003;</p>	Objective X, Procedure 2	<p><i>"As noted in the first 272 report, BST had incorrectly imputed \$1,200 too much to non-regulated operations for NDA. The NDA product team has taken steps to more closely monitor their circuit counts, and</i></p>

<p>imputation for Enhanced 911 (E911) was improperly calculated (off by \$2.1M in 2001; \$1M in 2002); and calculated amounts disagreed with journalized amounts for E911, Reverse Search and National Directory Assistance (NDA). (Objective X, Procedure 2)</p>		<p><i>any change in tariff rates, and the resulting imputations.”</i></p> <p><i>“As noted in the first 272 report, the imputation for E911 was booked incorrectly by approximately \$12,000. For the calendar year 2004, BST’s Federal Financial Compliance (FFC) group verified bills rendered and booked for E911 in order to identify and correct discrepancies and to determine what process improvements should be made. Corrections and new processes were developed with the direct involvement of E911 product team, the network team responsible for circuit deployment, the regulatory team that files tariff revisions, and billing. While manual processes continued through 2004, beginning in 2005, E911 billing/imputations will be changed to eliminate a manual step that provides opportunity for error. These manual processes had been necessary to avoid billing the local governments’ Public Safety Answering Points (PSAPs) for the Automatic Listing Information (ALI) database circuits and to create the imputation against BST’s non-regulated operations. Changes are being made to eliminate these manual processes while continuing to ensure that the PSAPs are not billed for circuits needed to access the database.”</i></p> <p>BSLD management further responds with the following in the document “BellSouth 2nd 272 Biennial Audit Survey Presentations, January 25-27, 2005”:</p> <ul style="list-style-type: none"> • “NDA booked incorrectly \$1,200 <ul style="list-style-type: none"> – NDA product team more closely monitoring circuit counts, tariff rate changes and resulting imputations • E911 booked incorrectly \$12,000
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		<ul style="list-style-type: none"> - <i>BST's Federal Financial Compliance (FFC) group verified 2004's monthly billing to identified discrepancies and direct corrections</i> - <i>FFC involved E911 product team, network circuit deployment group, regulatory (tariffs), and billing in error corrections and development of new processes and controls.</i> - <i>2005 will be able to eliminate one manual step and still be able to avoid billing Public Safety Answering Points (PSAPs) for database access circuits"</i>
<p>d. PwC's analysis of fixed assets indicates possible joint ownership and highlights unavailable supporting documentation: 51 of 94 items showed company name other than BSLD on the invoice, and for 10 of 94 items no support was available. (Objective I, Procedure 6)</p>	<p>Objective I, Procedure 6</p>	<p><i>"In March 2000, BellSouth moved the accounts payable process to a centralized process at BellSouth Affiliate Services Corporation (BASC), which uses Oracle as its systems platform. With this centralized accounts payable function BellSouth now has the ability to scan an image of all invoices into Markview. This centralized database of invoice images has greatly reduced the likelihood of invoices not being located. The process below describes how an invoice for fixed assets is received by BSLD, scanned into Markview, and paid. This has been BSLD's sole process for paying fixed asset invoices during the current 272 audit engagement period."</i></p> <p><i>"BSLD receives an invoice for all fixed assets purchased by BSLD. Each invoice is certified and approved by the appropriate personnel and then forwarded to an Accounting Associate (Associate) for further processing. The Associate reviews the invoice to ensure that it has been certified and approved and the account</i></p>

		<p><i>coding is correct. Next, the Associate faxes the invoice to BASC, which automatically scans the invoice into Markview. Markview has a 170 Systems Software that allows BSLD to view invoices electronically. BASC keys the header information and the invoice is automatically forwarded to the BSLD Associate for coding. The Associate keys in the payment coding, and the invoice is paid. Invoices for all assets purchased by BSLD are stored in Markview and retained in accordance with BellSouth Corporate record retention policies.”</i></p> <p><i>“The previous 272 audit noted instances where fixed asset invoices were billed to BellSouth Carrier Professional Services, BellSouth, and BellSouth Telecommunications, but all with a BSLD mailing address. BSLD believes this is an oversight on the part of the vendors mistakenly putting the incorrect affiliate name on the invoice and does not cause an ownership problem or indicate joint ownership. BSLD continues to monitor all invoices, as described above, to ensure their accuracy.”</i></p> <p><i>BSLD management further responds with the following in the document “BellSouth 2nd 272 Biennial Audit Survey Presentations, January 25-27, 2005”:</i></p> <ul style="list-style-type: none"> <i>• “Each invoice is certified and approved by the appropriate personnel.</i> <i>• Account Associates review the invoice to ensure that it is certified, approved and coded correctly before processing.</i> <i>• Invoices are scanned in Markview and retained in accordance with BSC record retention policies.”</i>
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<p>e. Of the 39 employees listed as being responsible for developing and recording affiliate transactions, two of a sample of 8 employees interviewed by PwC were unfamiliar with FCC rules and regulations governing affiliate transactions. (Objective V/VI, Procedure 3)</p>	<p>Objective V/VI, Procedure 3</p>	<p><i>“Each unit within BST has a person responsible for affiliate transaction compliance issues. Additionally, each BellSouth affiliate has an affiliate transaction coordinator. These BST and affiliate compliance coordinators are responsible for being the expert within their organizations for all impacted transactions. Accordingly, these coordinators are responsible for interfacing with BST’s Federal Financial Compliance (FFC) group when new transactions are proposed and to provide the required information on ongoing transactions. The FFC group met with these coordinators during 2004 to refresh their detailed training and to work through issues as necessary.”</i></p> <p><i>“Additionally, during the audit period, customized affiliate transaction training and compliance assistance was/is provided by the FFC staff to any individual or group exhibiting need. This is continually provided in addition to the intranet training.”</i></p> <p><i>“As to the previous engagement issue related to the Part 64 subject matter expert that was listed as a resource for questions related to fully distributed cost (FDC) when applicable to affiliate transactions, he has been removed from the resource list as he is not responsible for affiliate transaction expertise.”</i></p> <ul style="list-style-type: none"> • <i>“Each BST unit has responsible affiliate transaction contact</i> • <i>Each affiliate has affiliate transaction coordinator</i> • <i>Both BST and affiliate representative are responsible for</i> <ul style="list-style-type: none"> – <i>Their own organizations</i>
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		<p><i>transactions</i></p> <ul style="list-style-type: none"> – <i>Expertise in their own organizations compliance processes (billing)</i> – <i>Assisting their organization with compliance issues</i> <ul style="list-style-type: none"> • <i>FFC staff provides customized training to unit and affiliate contacts</i> • <i>Intranet training continues to be available</i> • <i>Part 64 FDC expert was removed as an affiliate transaction resource as he was listed for FDC consultation and is not responsible for AT expertise.”</i>
<p>f. For corporate communications services provided by BSLD to BST, the auditors were unable to compare the amount recorded by BST with the amount paid by BST for services received from BSLD for 41 of 118 items. (Objective V/VI, Procedure 7)</p>	<p>Objective V/VI, Procedure 8</p>	<ul style="list-style-type: none"> • <i>“Identified all individual account balances</i> • <i>FFC worked to clear up outstanding balances</i> • <i>BST & BSLD scrubbed account list to identify accounts to be closed</i> • <i>Disputed items continue to be addressed</i> • <i>Corporate reconciliation reporting for intercompany receivable/payable balance differences”</i> <p><i>“In addition to measures taken by BST, BSLD has taken the following steps:</i></p> <ul style="list-style-type: none"> • <i>Bill Verification Process Enhancements</i> <ul style="list-style-type: none"> – <i>International rate billing increments corrected 9/16/2003 by contract amendment to reflect 60 initial increment second, 30 second successive</i>

		<p>increments</p> <ul style="list-style-type: none"> - Implemented rate verification process performed upon contract implementation or contract amendment for every product/service plus ongoing monthly sampling • Improved Collections Activity & Dispute Process <ul style="list-style-type: none"> - Created a manual monthly collections AR Report in addition to the monthly invoices - Implementing system application of 1.5% interest penalty charge - BSLD Sales provided additional training to BST on dispute process ”
<p>g. Selected performance measurement data reviewed in the course of the audit suggest that BellSouth completed requests from unaffiliated entities for telephone exchange service and exchange access within a period longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates. (Objective VIII, Procedure 4)</p>	<p>Objective VIII, Procedure 4</p>	<p>“BST performed root cause analysis on all metrics in the first Section 272 Audit that appeared to point out disparity between BSLD and unaffiliated third parties. The analysis revealed that, in most cases, the difference between performance for BSLD compared to performance for unaffiliated third parties was not any attempt to treat BSLD in a more favorable manner than unaffiliated third parties, but was a result of operational issues or reflected the ordering/purchasing behavior of different customers.</p> <p><i>BellSouth’s performance is tracked and assessed regularly as part of the normal business process. As a result of this ongoing assessment, BellSouth has implemented the following teams since the end of the first audit period.”</i></p> <p>Refer to Table 40 attached below</p>

Table 40

Team Name	Team Purpose	Meeting Frequency	Date Developed
Access Customer Advocacy Center (ACAC) Maintenance Process Improvement Team	Identify maintenance process improvement opportunities within the realm of the ACACs in order to improve service quality	Monthly	June 2003
ACAC Provisioning Process Improvement Team	Identify provisioning process improvement opportunities within the realm of the ACACs in order to improve service quality	Monthly	June 2003
Ordering Processing Improvement Team	Identify ordering process improvement opportunities within the realm of the Inter-connection Service Centers (ICSCs) in order to improve service quality	Monthly	June 2003
Failure Frequency and Repeats Steering Team	Identify and track various initiatives focused on improving overall failure frequency and repeat rate performance	Monthly	July 2003
Four Area Improvement Team	Highlight areas of opportunity for improving the results of the four worst performing areas in the areas of failure frequency, repeat rate, and new circuit failure rate	Monthly	November 2004
New Circuit Failure Team	Identify new circuit failures and ways to improve the overall new circuit failure rate performance. Root cause is provided by the ACACs and Turf Managers to determine reasons for failure	Weekly	March 2005

Attachment A-1

**JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
BELLSOUTH TELECOMMUNICATIONS, INC.**

**GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED**

**FINAL PROCEDURES
October 21, 2005**

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BELLSOUTH TELECOMMUNICATIONS, INC.
BIENNIAL ENGAGEMENT PROCESS

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended (the Act), requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. For interLATA information services, this requirement expired on February 8, 2000 in accordance with the Act. Before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of section 271 of the Act and must receive approval by the Federal Communications Commission (FCC). A BOC that is required to operate a separate affiliate under section 272 must obtain and pay for a joint Federal/State audit every two years.¹

2. The Commission adopted rules to implement the section 272(d) biennial audit requirement. *See Accounting Safeguards Order* at paras. 197-205; *see also* 47 C.F.R. § 53.209-.213. The Commission's Part 53 rules and accompanying orders govern the conduct of the section 272(d) biennial audit. As stated in the Commission's Part 53 rules, the purpose of the section 272(d) biennial audit is to determine whether the BOC and its section 272 affiliates have operated in accordance with the accounting and non-accounting safeguards required by section 272 of the Act and the Commission's rules. 47 C.F.R. § 53.209 (b) lists the specified compliance requirements of the section 272(d) biennial audit. In addition to specifying the audit requirements, the Commission's rules at 47 C.F.R. § 53.209(d) provide for the establishment of a Federal/State joint audit team that is authorized to oversee the conduct of the audit from planning stage through completion and to "direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements in 47 C.F.R. § 53.209(b)". Although the section 272(d) biennial audit is to be conducted by an independent auditor, the Federal/State joint audit team is also responsible for ensuring that the audit meets the objectives stated in the Commission's rules and orders. 47 C.F.R. §§ 53.209(d) states that the Federal/State joint audit team is responsible for "overseeing the planning of the audit"; 47 C.F.R. §§ 53.211(b) requires the Federal/State joint audit team to review the audit requirements and authorizes the Federal/State joint audit team to modify the audit program; 47 C.F.R. §§ 53.211(c) authorizes the Federal/State joint audit team to approve the audit requirements and program; and 47 C.F.R. §§ 53.211(d) gives the Federal/State joint audit team the right to determine any modifications to the audit program and to be kept apprised of any revisions to the audit program or to the scope of the audit. In accordance with *Statements on Standards For Attestation Engagements* 10, Paragraph 1.03: "When a practitioner undertakes an attest engagement for the benefit of a government body or agency and agrees to follow specified government standards, guides, procedures, statutes, rules and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards."

3. Working pursuant to delegated authority, the Federal/State joint audit team elected to use the Agreed-Upon Procedures (AUP) form of attestation engagement to meet the objectives specified in the Commission's rules, *i.e.*, to determine whether the BOC and its section 272 affiliates complied with the relevant accounting and non-accounting safeguards. The American Institute of Certified Public

¹ 47 U.S.C. § 272(d).

Accountants (AICPA) defines an AUP engagement as "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter."² For the purposes of planning this AUP engagement and developing the appropriate audit procedures, the "specified parties" consist of the Federal/State joint audit team ("Oversight Team" or "Joint Oversight Team") and the company responsible for obtaining and paying for the section 272(d) biennial audits (*i.e.*, BellSouth Telecommunications, Inc. ("BST")). The Oversight Team will be comprised of members from the FCC and members from the state commissions who have jurisdiction over BST in their respective states³ and who have chosen to participate in the Biennial Audit and have either a signed Protective Agreement or a Protective Order promulgated by the State commission.

The Oversight Team is responsible for reviewing the conduct of the engagement and, after consultation with BST, for directing the practitioner to take such action as the team finds necessary to achieve each audit objective. Consistent with section 53.209(d) of the Commission's rules, the Oversight Team may direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements of section 53.209(b) as reflected in letters or orders issued by the Bureau staff and served on BST. If BST disagrees with the Oversight Team's directions, the Oversight Team will issue a written decision describing the specific directions to which BST objects. BST may file a petition for reconsideration (PFR) of that decision with the Enforcement Bureau pursuant to section 1.106 of the Commission's rules. The specified parties agree that the independent auditor shall implement the directions of the Oversight Team ten business days after such decision is issued if BST has not filed a PFR. The specified parties further agree that if the Enforcement Bureau denies any part of BST's PFR, the independent auditor shall immediately implement the directions of the Enforcement Bureau's decision.

BST may also file an application for review (AFR) of the Enforcement Bureau's decision pursuant to section 1.115 of the Commission's rules. The independent auditor shall nonetheless implement the Enforcement Bureau's decision even if BST files an AFR of that decision. Should the Commission grant any part of BST's AFR, the independent auditor shall modify its procedures accordingly. In the event that BST's AFR has not been acted on by the date of the filing of the final biennial audit report, the results of any such affected procedures shall be omitted from the final biennial audit report until such time as the Commission issues a final decision; however, the issues under review shall be disclosed in the final biennial audit report as matters subject to an application for review with the Commission that have not yet been acted upon.

The text below provides the requirements for the engagement as listed in section 53.209(b) of the FCC rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report all results in the form of findings from application of the agreed upon procedures.

² Statement on Standards for Attestation Engagements (SSAE) 10, paragraph 2.03, published by the American Institute of Certified Public Accountants.

³ Alabama Public Service Commission; Florida Public Service Commission; Georgia Public Service Commission; Kentucky Public Service Commission; Louisiana Public Service Commission; Mississippi Public Service Commission; North Carolina Utilities Commission; South Carolina Office of Regulatory Staff; and Tennessee Regulatory Authority.

COMPLIANCE REQUIREMENTS

4. The requirements that will be covered in the Biennial Audit are contained in 47 U.S.C. section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. section 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under section 272 of the Act:

- I. Shall operate independently from the Bell operating company;
- II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;
- III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;
- IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under section 272 of the Act:

- V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

- VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscrimination Requirements

The Bell operating company:

- VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;
- VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;
- IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;

- X. Shall charge its separate affiliate under section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;
- XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001.

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996. Another release under this docket was issued on June 30, 1999.

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (*First Interconnection Order*); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (*Second Interconnection Order*).

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998.

CC Docket No. 98-121, In the Matter of Application of BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; *Memorandum Opinion and Order*; Released October 13, 1998. CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*; Released November 5, 2001.

WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*; Released March 17, 2004.

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscrimination Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321, Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329, AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318, Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56, Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

ENGAGEMENT PLAN

Engagement Period

7. The AUP engagement shall cover the 24 months of operations beginning May 24, 2003 and ending May 23, 2005 for all nine BST states since all have obtained authority to provide in-region interLATA services prior to May 24, 2003. The engagement will also cover all assets of the 272 affiliate added since the last biennial audit. The biennial audit will cover all services for which a separate affiliate is required under section 272(a)(2) and includes all BOCs within the Region and ILECs providing or receiving services to or from the section 272 affiliate. The Audit Test Period will be from June 1, 2003 through February 28, 2005, except where noted.

Sunset Provisions

8. Section 272(f)(1) of the Communications Act provides that section 272 (other than subsection (e)) shall cease to apply to the interLATA telecommunications services of a BOC three years after the date the BOC receives authorization to provide interLATA telecommunications services under section 271(d), unless the Commission extends such three-year period by rule or order. Thus, section 272(d), which concerns the biennial audit sunsets three years after section 271 authorization. The Commission has determined that such “sunset” shall apply on a state-by-state basis according to the date that each state receives section 271 authorization.⁴

⁴ WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

Therefore, as each state within the BST region sunsets, that state may be excluded from further section 272 audits as of the date of sunset as recognized by the FCC. However, if a BOC in a given state has affiliate transactions with any section 272 affiliate, those transactions will continue to be part of the audit because of the continuation of the Commission's rules governing affiliate transactions in Part 32.

Following the above process, Georgia and Louisiana would be eligible to sunset on May 15, 2005 and the balance of the BST states would sunset during the third BST biennial audit. The engagement period for the current biennial audit ends on May 23, 2005 and the audit test period ends on February 28, 2005. As such, all nine BST states are included in this AUP engagement. Also, pursuant to a consent decree entered into between BST and the Commission in July 2003, all of the nine states in the BellSouth service area will sunset at the same time on December 30, 2005.¹

The Commission has ruled that a BOC will be deemed nondominant in the provision of in-region, interLATA, domestic, interstate service only insofar as that service is provided through an affiliate that complies with section 272 and the FCC's implementing rules.² Therefore, operations in a sunset state will be included in future engagements unless BST gives notice that it has elected to stop providing in-region, interLATA, domestic, interstate service through an affiliate that complies with section 272 and the FCC's implementing rules in a particular state(s). Without such notice provided to the Federal/State joint audit team prior to the date the independent auditor begins its audit work, all states will be included in the engagement regardless of sunset status.

Sampling

9. Certain audit procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such audit procedures shall be determined after the initial survey and/or during the performance of the audit of BST and its relationship with its section 272 affiliate. The practitioner and the specified parties shall make such determinations jointly. During this process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, and the method of selection. Where the specified parties and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 1%.

For control testing the practitioner will use the following sample sizes based on the frequency of the control:

¹ In the Matter of BellSouth Corporation; *Order*; FCC 03-174, ¶ 11(a)(i); Released July 17, 2003.

⁶ CC Docket No. 96-149, In the Matter of Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area; *Second Report and Order*; Released April 18, 1997. WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

Frequency of Control	Number of Items to Test
Annual	1
Quarterly	2
Monthly	2
Weekly	5
Daily	20
Multiple times per Day	30

Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with BST, when reviewing the detailed procedures written by the practitioner and/or during the execution of the procedures.

10. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of the end of the Audit Test Period, the practitioner will utilize February 28, 2005 as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to test these changes to ensure continued compliance with the section 272 requirements.

Definitions

11. BOC If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see section 272(g)(1) of the Act), shall be excluded from these requirements.

12. BellSouth Telecommunications, Inc. or BST For the purposes of this engagement, BellSouth Telecommunications, Inc. is the only "Bell Operating Company" serving the nine-state territory and subject to this Biennial Audit and includes any successor or assign of such company as described in ¶11. The term "ILEC" (Incumbent Local Exchange Carrier) includes BST and any successor or assign of such company as described in ¶11.

13. Affiliate The term "affiliate" shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or the

equivalent thereof) of more than 10 percent. (See Section 3 of the Communications Act of 1934, as amended.)

14. *BellSouth Telecommunications, Inc. or BST's Section 272 Affiliate(s)* The audit procedures are required to be performed, unless otherwise specified, for all section 272 affiliates as defined by the Act. For the purposes of this engagement, the term "separate affiliate" or "section 272 affiliate" refers to BellSouth Long Distance, Inc., and any other affiliate that originates InterLATA telecommunications services in the BellSouth region that is subject to section 272 separation requirements, and any affiliate that engages in manufacturing activities as defined in section 273(h).

15. *Official Services* Official Services mean those services permitted by the United States District Court for the District of Columbia in *United States v. Western Electric Co. Inc.* See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

16. *Obtain* For purposes of this engagement, the term "obtain" as referred to in the procedures contained herein, shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. The practitioner, in their professional judgment, shall decide which items are too voluminous to include in the working papers. The practitioner shall include a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers.

Conditions of Engagement

17. The practitioner leading this engagement shall be a licensed CPA. The practitioner's team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the Biennial Audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38) and in compliance with the independence requirements of the Sarbanes-Oxley Act of 2002. The practitioner shall disclose in its engagement letter to BST how the team shall comply with the independence requirements of the Sarbanes-Oxley Act of 2002. All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;
- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);
- The relevant orders and rules from the following FCC Dockets:
 - a. CC Docket No. 86-111, dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;

- b. CC Docket No. 96-149, dealing with the implementation of the non-accounting safeguards of sections 271 and 272 of the Act;
- c. CC Docket No. 96-150, dealing with the implementation of the accounting safeguards of sections 271 and 272 of the Act;
- d. CC Docket No. 96-98, dealing with the implementation of the local competition provisions of the Act (the interconnection orders);
- e. CC Docket No. 96-115, dealing with the use of customer proprietary network information;
- f. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321, Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329, AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period;
- g. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318, Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56, Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

- BellSouth Telecommunications, Inc.'s section 271 application(s) and related FCC approval(s);
- Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;
- Petitions for arbitration with the BOC for those agreements tested within the engagement.

18. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed upon procedures or the scope of the engagement,

in order to provide the specified parties with all of the information needed to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform BST about these revisions. These revisions will be subject to the procedures described in paragraph 3 above.

19. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the specified parties shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with BellSouth Telecommunications, Inc.

20. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the practitioner.

21. The practitioner shall not use or rely on any of the procedures performed during any of the BST Cost Allocation Manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

Representation Letters

22. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para.23). The second type of representation letter shall address all items of a financial nature (see para.24). The third type of representation letter shall state that all section 272 affiliates have been disclosed (see para.25). The following paragraphs detail the contents of each type of representation letter.

23. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of BST and each section 272 affiliate. The letters shall include the following:

- a. acknowledgement of management responsibility for complying with specified requirements;
- b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;
- c. statement that BST has performed an internal evaluation of its compliance with the specified requirements;
- d. statement that management has disclosed or will disclose to the practitioner all known noncompliance occurring up to the date of the report;
- e. statement that management has made available all documentation related to compliance with the specified requirements;
- f. statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;
- g. statements that any section 272 affiliate operates independently from BellSouth Telecommunications, Inc.; BST does not own any facilities jointly with any section 272 affiliate; prior to March 30, 2004 BellSouth Telecommunications, Inc., or other affiliates (other than the section 272 affiliate itself and BellSouth Carrier Professional Services, Inc. (BCPS)), did not provide any operations, installation, and maintenance functions over the facilities owned by any section 272 affiliate, or leased by any section 272 affiliate from unaffiliated entities; prior to March 30, 2004 no section 272 affiliate provided any operations, installation, and maintenance functions over BellSouth Telecommunications, Inc.'s facilities; and BST is not providing and did not provide any research and development that is a part of manufacturing on behalf of any section 272 affiliate pursuant to section 272(a);
- h. statement that any section 272 affiliate has separate officers, directors, and employees from those of BellSouth Telecommunications, Inc.;
- i. statement that BST did not discriminate between itself or any section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on the BST representation letter only);
- j. statement that BST has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in

which it provides such telephone exchange service and exchange access to itself or its affiliates (on the BST representation letter only);

k. statement that BST has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to any section 272 affiliate that operates in the same market (on the BST representation letter only).

24. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of BST and each section 272 affiliate. The letters shall include the following:

a. statement that any section 272 affiliate maintains separate books, records, and accounts from those of BST and that such separate books, records, and accounts are maintained in accordance with GAAP;

b. statement that no section 272 affiliate has obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BellSouth Telecommunications, Inc.;

c. statement that management has identified to the practitioner all assets transferred or sold since the last audit, and services rendered: (i) by BST to any section 272 affiliate; and (ii) by any section 272 affiliate to BST; and that these transactions have been accounted for in the required manner;

d. statement that BST has charged any section 272 affiliate, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service (on the BST representation letter only);

e. statement that, if BST and an affiliate subject to section 251(c) of the Act make available and/or have provided any interLATA facilities or services to its interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on the BST representation letter only);

f. statement that management has not changed any of the BST processes or procedures (as they relate to transactions of any kind with any section 272 affiliate) and that these processes and procedures have continued to be implemented on a consistent basis, since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report (on the BST representation letter only).

25. The representation letter related to the disclosure of all section 272 affiliates shall be signed by the Chief Financial Officer of BellSouth Corporation and shall state that each section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner. This letter shall also state that BellSouth: a) agrees that it will voluntarily comply with the separate affiliate requirements set forth in 47 U.S.C. 272, including section 272(d), until such time as each of the nine states in BellSouth's region is relieved from the

requirements; and b) agrees that it will be subject to enforcement proceedings for noncompliance with section 272 that occurs after July 17, 2003, in any of the nine states in BellSouth's region until such time as each of the nine states in BellSouth's region is relieved from the requirements.

Engagement Process

26. The General Standard Procedures, which were drafted through the cooperative efforts of Federal and State regulators and various industry groups, are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences. The standards identified throughout this document are not legal interpretations of any rules or regulations. To the extent that these standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures, neither the FCC nor BellSouth Corporation, or any of its affiliates, concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

27. The General Standard Procedures shall be used by BST as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in section 53.211(a) and (b) of the Commission's rules. Under these rules, BST shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the Biennial Audit. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in section 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final audit requirements" (section 53.211(b)). The preliminary audit requirements and scope of the audit shall be similar to the General Standard Procedures and shall cover all the areas described in that model. BST shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the Biennial Audit. After BST has engaged a practitioner to perform the Biennial Audit, the process for drafting detailed procedures shall proceed as follows:

- The Oversight Team and the practitioner shall perform a joint survey of the section 272 affiliate and BST. The Oversight Team and the practitioner shall coordinate with BST to determine the nature, timing and extent of this survey at a mutually agreeable time and location. The survey shall provide the practitioner and the Oversight Team with an overview of the company's structure and policies and procedures such as record keeping processes, the extent of affiliate transactions, and BST procedures for processing orders for services received from affiliates, unaffiliated entities, and its own end-user customers. The survey shall be conducted between four to six months before the end of the period to be covered by this engagement.
- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (section 53.211(d)).
- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (section 53.211(d)). These modifications will be subject to the procedures described in paragraph 3 above.

28. Access to all information during the section 272(d) biennial audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state

commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with BST; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not signed the protective agreement, but to whom BST does not object providing oral or written information, provided that they do not take possession of such information.

29. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in section 53.211 and section 53.213 of the Commission's rules.

30. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with BST, to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but in not less than 10 days, of plans to meet with representatives of BST for the following reasons: to discuss plans and procedures for the engagement; to survey BST operations; to review BST procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client to ask for clarification or explanation of certain items, explore what other records exist, or request data. The practitioner shall immediately inform in writing the Oversight Team of any deviation from, or revisions to, the final detailed audit procedures and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, BellSouth Telecommunications, Inc., any rule interpretation necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for additional time to complete the engagement in the event that the Oversight Team requests additional procedures (see 31c. below). Finally, the practitioner shall immediately inform the Oversight Team, in writing, of any failure by BST or BellSouth Long Distance, Inc., to respond to requests for information during the engagement.

Timetables

31. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

a. Within 60 days after the end of the engagement period, but prior to discussing the findings with BST, the practitioner shall submit a draft of the report to the Oversight Team for all procedures.

b. The Oversight Team shall have 45 days to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings of the practitioner that remain unresolved shall be included in the final report.

c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and BST of any need for additional time to perform such

procedures. Otherwise, within 15 days after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report to BST for its comments on the findings, and to the Oversight Team. At the time the report is provided to BST, the practitioner may provide BST with an itemized list of all data and information identified as proprietary or confidential that the practitioner included in the report.

d. Within 30 days after receiving the report, BST will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. BST will also provide the practitioner and the Oversight Team notification of all items contained in the draft report which BST contends to be confidential. BST's response shall be included as part of the final report.

e. Within 10 days after receiving BST comments, the practitioner may respond to BST's comments and shall make available for public inspection the final report by filing it with the regulatory agencies having jurisdiction over BST. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, BST's comments, the practitioner's reply comments, and a copy of these procedures as executed.

f. Interested parties shall have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any state regulatory agency.

Report Structure

32. Consistent with the AICPA standards for AUP engagements, the practitioner must present the results of performing the audit procedures in the form of findings, including dollar amounts, resulting from application of the audit procedures. The presentation of findings related to each of the specified procedures shall include sufficient detail and specificity that a reader may draw a reasonable conclusion as to whether the respective Objective has or has not been met. The detail and specificity of the findings related to each of the specific procedures shall be consistent with BST's prior biennial audit report. The practitioner shall include in the report all the information required to be included in the report by the procedures and any further information required by the Oversight Team subject to the provisions of paragraph 3. The practitioner must avoid vague or ambiguous language in reporting the findings, and shall describe in the final report all instances of noncompliance with section 272 or its related implementing rules that were noted by the practitioner in the course of the engagement, or were disclosed by BST during the engagement and not covered by the performance of these procedures. Where samples are used to test data, the report shall identify the size of the universe from which the samples were drawn, the size of the sample, the sampling methodology used and, where appropriate, the standard deviation and mean. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, BST's comments, the practitioner's reply comments, and a copy of these procedures as executed. The practitioner's report must also contain the following elements:

- a. A title that includes the word independent.
- b. Identification of the specified parties.
- c. Identification of the subject matter (or the written assertion related thereto) and the character of the engagement.
- d. Identification of BST as the responsible party.
- e. A statement that the subject matter is the responsibility of the responsible party.
- f. A statement that the procedures performed were those agreed to by the specified parties identified in the report or were directed by the Bureau or the Commission, as specified in paragraph 3.
- g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA.
- h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.
- i. A list of the procedures performed (or reference thereto) and related findings.

- j. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.
- k. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies having jurisdiction over BST.
- l. A description of any limitations imposed on the practitioner by BST or any other affiliate, or other circumstances that might affect the practitioner's findings.
- m. A description of the nature of the assistance provided by specialists and internal auditors.

BELLSOUTH TELECOMMUNICATIONS, INC.
BIENNIAL ENGAGEMENT PROCEDURES

Follow-up Procedures on the Prior Engagement

1. The following matters were noted in the prior engagement's BellSouth Telecommunications, Inc. Section 272 Biennial Agreed Upon Procedures Report of the independent accounting firm, PricewaterhouseCoopers LLP (PwC), dated November 10, 2003:
 - a. BST customer service representatives failed to follow the prescribed marketing script when responding to in-bound callers. After listening to 100 calls at 5 different Consumer call centers, 30 calls at 1 Small Business call center, and 10 calls at 1 Large Business center, the auditors noted that BST customer service representatives failed to notify callers of their right to choose a long distance carrier other than BellSouth Long Distance in 24 instances. Eight calls at Consumer centers and 16 calls at the Small Business center were noted as exceptions. (Objective VII, Procedure 6)
 - b. PwC analyzed all 34 written agreements between BST and its section 272 affiliate, along with 64 amendments. The auditors compared information in the agreements and amendments with data posted on BellSouth's web sites and found that not all postings were timely, some website data differed from written agreements, and omissions and inaccuracies were noted in some postings: 25 of the 98 posted agreements and amendments (34 agreements and 64 amendments) were not posted within the 10-day timeframe; for 5 of the 98 posted agreements and amendments, posting data differed from the written agreements; and 21 of the 98 posted agreements and amendments did not contain required disclosures for fully distributed cost elements (material cost, full loading and overhead costs). (Objective V/VI, Procedure 5)
 - c. PwC noted the following imputation errors: for the NDA service, the tariff rates did not match the rates that were being applied for the months of June - November 2002 and March of 2003; imputation for Enhanced 911 (E911) was improperly calculated (off by \$2.1M in 2001; \$1M in 2002); and calculated amounts disagreed with journalized amounts for E911, Reverse Search and National Directory Assistance (NDA). (Objective X, Procedure 2)
 - d. PwC's analysis of fixed assets indicates possible joint ownership and highlights unavailable supporting documentation: 51 of 94 items showed company name other than BSLD on the invoice, and for 10 of 94 items no support was available. (Objective I, Procedure 6)
 - e. Of the 39 employees listed as being responsible for developing and recording affiliate transactions, two of a sample of 8 employees interviewed by PwC were unfamiliar with FCC rules and regulations governing affiliate transactions. (Objective V/VI, Procedure 3)

- f. For corporate communications services provided by BSLD to BST, the auditors were unable to compare the amount recorded by BST with the amount paid by BST for services received from BSLD for 41 of 118 items . (Objective V/VI, Procedure 7)
 - g. Selected performance measurement data reviewed in the course of the audit suggest that BellSouth completed requests from unaffiliated entities for telephone exchange service and exchange access within a period longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates. (Objective VIII, Procedure 4)
2. When performing the procedures related to the above matters, the practitioner will note in the report whether these matters continued to exist beyond the previous engagement period, what action management took to ensure their non-recurrence or improvement, and the effective date of such action.

Procedures for Structural Requirements

OBJECTIVE I. Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell Operating Company (BOC).

STANDARDS

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (See 47 C.F.R. Section 53.203(a)(1) and First Report and Order, paras. 15, 158, 160)
- Prior to March 30, 2004 a section 272 affiliate shall not perform operating, installation or maintenance functions associated with the BOC's facilities. Likewise, prior to March 30, 2004 a BOC or any BOC affiliate, other than the section 272 affiliate itself, shall not perform operating, installation or maintenance functions associated with the facilities that each section 272 affiliate owns or leases from a provider other than the BOC with which it is affiliated. (See 47 C.F.R. Section 53.203(a)(2), (3) and First Report and Order, paras. 15, 158, 163)
- To the extent that research and development is a part of manufacturing, it must be conducted through a section 272 affiliate. If a BOC seeks to develop services for or with its section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to section 272(c)(1). (See First Report and Order, para. 169)

PROCEDURES

1. Inquire of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this biennial audit, and whether there have been any legal and/or "doing business as" (DBA) name changes since the last engagement period. For each such change reported by management, and for any section 272 affiliate established or formed since the last engagement period, inspect the certificate of incorporation, bylaws, and articles of incorporation to determine whether these affiliates were established as corporations separate from BST. Note in the report the results of this procedure.
2. Obtain and inspect corporate entities' organizational chart(s) and confirm the legal, reporting, and operational corporate structure of the section 272 affiliate with legal representatives of BST, the section 272 affiliate, and BellSouth Corporation, as appropriate. Disclose these facts in the report. Document and disclose in the report who owns the section 272 affiliate.

3. For the period prior to March 30, 2004, inquire of management, identify, and document which entities perform operations, installation, and maintenance (OI&M) functions over facilities either owned by the section 272 affiliate, or leased from a third party by the section 272 affiliate.
 - a. Obtain management's definition and interpretation of operations, installation, and maintenance (OI&M) functions. Describe in the report management's definition of OI&M.
 - b. For the period prior to March 30, 2004, disclose in the report whether or not any of these OI&M services described above in step (a) are being performed by BST, and/or other affiliate(s), other than BCPS, on facilities either owned by the section 272 affiliate or leased from a third party by the section 272 affiliate. For each such service being performed by BST or other affiliate(s), other than BCPS, disclose in the report what service is being performed by what entity.
 - c. For the period prior to March 30, 2004, disclose in the report whether or not any of these OI&M services described above in step (a) are being performed by the section 272 affiliate on facilities either owned by BST or leased from a third party by BST. Disclose in the report each such service being performed by the section 272 affiliate.
4. For the period after March 30, 2004 until the end of the Engagement Period, inquire of management, identify, and document in the report which entity performs OI&M functions over facilities either owned by each section 272 affiliate, or leased from a third party by each section 272 affiliate.
 - a. Disclose in the report whether or not any of these OI&M services are being performed by the BST and/or other non-section 272 affiliate(s) on facilities either owned by each section 272 affiliate or leased from a third party by a section 272 affiliate. For each such OI&M service, disclose in the report what service is being performed by what entity, e.g., BST, or other non-section 272 affiliate. Also disclose the date upon which each service was first provided.
 - b. Disclose in the report whether or not any of these OI&M services are being performed by any section 272 affiliate on facilities either owned by BST or leased from a third party by BST. For each such service being performed by a section 272 affiliate, disclose in the report what service is being performed by what entity, the name of the section 272 affiliate, and the date upon which the service was first provided.
5. Through inquiry of management, determine whether BST performs any R&D (Research and Development) activities on behalf of the section 272 affiliate. If yes, obtain descriptions of R&D activities performed by BST for the period from June 1, 2003 through February 28, 2005 and note any R&D related to the activities of the section 272 affiliate. For R&D related to the activities of the section 272 affiliate, request from BST personnel more details, such as the extent of R&D provided, progress reports, cost, and whether the section 272 affiliate has been billed and has paid for this service. Disclose in the report all information obtained. Inquire and disclose in the report whether or not

R&D service is offered and/or has been performed when requested by unaffiliated entities.

6. Obtain as of the end of February 2005 the balance sheet of the section 272 affiliate and a detailed listing of all its fixed assets, including capitalized software. The total amount for fixed assets on the balance sheet should agree with the total amount on the fixed assets list. If the list does not agree with the balance sheet, inquire and document why. Disclose in the report by what amount the assets in the balance sheet are more than, or less than, as appropriate, the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. Verify that all assets on the detailed listing that were added since May 24, 2003 include a description and location of each item, date of purchase, price paid, price recorded, and from whom purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). Disclose in the report any item, including dollar amounts, where any of this information is missing. Inspect title and/or other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located, added since May 24, 2003. If any of these documents are not made available, disclose in the report. Look for and make a note of any facilities that are owned jointly with BST and disclose in the report. The balance sheet information obtained in this procedure should also be used to perform Procedure 9 under Objectives V and VI.

OBJECTIVE II. Determine whether the separate affiliate required under section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell Operating Company (BOC).

STANDARDS

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (See Report and Order, para. 170)

PROCEDURES

1. Obtain the general ledger (G/L) for the section 272 affiliate as of February 28, 2005 and match the title on the G/L with the name of the affiliate on the certificate of incorporation (or other name which uniquely identifies the section 272 affiliate such as the DBA) to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of BST and provide documentation (unless such codes are merely common accounting system codes or the like that are used in the general ledgers of all companies produced by such accounting system). State in the report whether or not a separate G/L is maintained, and if not, explain why. Note: Linkage at corporate headquarters for consolidations is an accepted practice.
2. Obtain the section 272 affiliate's financial statements (i.e., Income Statement and Balance Sheet) as of February 28, 2005.
3. Obtain a list of lease agreements as of February 28, 2005. Identify leases for which the annual obligation listed in the lease agreement is \$500,000 or more. Test those leases for which the section 272 affiliate is the lessor as well as those leases for which the section 272 affiliate is the lessee. For a statistically valid sample of leases \$500,000 or more, obtain a copy of the lease agreement, and make a note of the terms and conditions to determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP. Disclose in the report any instance where these leases were not accounted for in accordance with GAAP.

OBJECTIVE III. Determine whether the separate affiliate required under section 272 of the Act has officers, directors, and employees that are separate from those of the Bell Operating Company (BOC).

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirement further by stating the following:

Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its section 272 affiliate. (See First Report and Order, para. 178)

PROCEDURES

1. Inquire, document and disclose in the report whether each section 272 affiliate maintains a separate board of directors, separate officers, and separate employees from BST. For BST and the section 272 affiliate, obtain a list of the names of directors and officers, including the dates of service for each Board member and officer for the engagement period (May 24, 2003 to May 23, 2005). Confirm this list by comparing it to historical records of consents, minutes of Board of Directors' meetings, etc. Compare the list showing names of directors and officers for BST with a list showing names of directors and officers for the section 272 affiliate. For those names appearing on both lists, obtain explanations from management and request social security numbers and addresses to ensure that they are not the same individuals. Disclose in the report the number of directors and officers who, having the same social security number and address, served simultaneously as a director/officer of BST and as director/officer of the section 272 affiliate.
2. Obtain from the respective Human Resource Departments of the section 272 affiliate and BST a list of names and social security numbers of all employees from May 24 , 2003 through May 23, 2005. Design and execute a program that compares the names and social security numbers of employees at both entities, and document in the workpapers the names appearing on both lists. For any employee appearing on both lists simultaneously, inquire and document the reason in the report (for privacy reasons, do not include the names or SSNs of any BellSouth employees in the report).

OBJECTIVE IV. Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell Operating Company (BOC).

STANDARDS

The FCC in 47 C.F.R. Section 53.203(d) indicates that a section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a section 272 affiliate that would allow such section 272 affiliate to obtain credit granting recourse to the BOC's assets. (See First Report and Order, para. 189)
- The BOC parent, or any other non-section 272 affiliate, cannot sign or co-sign a contract or enter into any arrangement with a section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (See First Report and Order, para. 189)
- A section 272 affiliate cannot enter into any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (See First Report and Order, para. 189)

PROCEDURES

1. Obtain from management and document in the workpapers the section 272 affiliate's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services entered into or modified during the Engagement Period. Look for guarantees of recourse to BST's assets either directly or indirectly through another affiliate. Document any instances and disclose them in the report. Major suppliers are those having \$500,000 or more in annual sales to the section 272 affiliate as stated in the agreement.
2. Using the lease agreements obtained in Objective II, Procedure 3, that were entered into or modified during the Audit Test Period, document any instances in which the section 272 affiliate's lease agreements (where the annual obligation is \$500,000 or more as stated in the agreement) have recourse to the assets of BST, either directly or indirectly through another affiliate. Disclose any instances in the report.
3. For all debt instruments, leases, and credit arrangements maintained by the section 272 affiliate in excess of \$500,000 of annual obligations that were entered into or modified during the Engagement Period, and for a judgmental sample of 10 debt instruments, leases and credit arrangements that are less than \$500,000 in annual obligations that were

entered into or modified during the Engagement Period, obtain (positive) confirmations from loan institutions, major suppliers, and lessors to attest to the lack of recourse to BST assets. Disclose in the report any recourse noted.

Procedures for Accounting Requirements

OBJECTIVE V. Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the Bell Operating Company (BOC) on an arm's length basis with the transactions reduced to writing and available for public inspection.

OBJECTIVE VI. Determine whether or not the Bell Operating Company (BOC) has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

STANDARDS

The FCC in CC Docket 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, interprets the above requirements further by stating:

- A section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. Section 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (See 47 C.F.R. Section 53.203[e]) Section 32.27 requires the following:

For transactions involving the sale or transfer of assets or products between the carrier and affiliates, or chained transactions:

- a. assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariff rate;
- b. nontariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price must be recorded at prevailing price. In order to qualify for prevailing price valuation, sales of a particular asset to third parties must encompass greater than 25% of the total quantity of such product sold by an entity. Carriers shall apply this 25% threshold on an asset-by-asset basis rather than on a product line basis. See "Exceptions" below;
- c. all other assets sold by or transferred from a carrier to its affiliates, the asset shall be recorded at no less than the higher of fair market value or net book cost. See "Exceptions" below;

for all other assets sold by or transferred to a carrier from its affiliates, the assets shall be recorded at no more than the lower of fair market value or net book cost. See "Exceptions" below.

Exceptions:

Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the asset(s) does not reach or exceed \$500,000, the asset(s) shall be recorded at net book cost.

For transactions involving the provision of services between the carrier and affiliates, or chained transactions:

- a. services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate;
- b. nontariffed services provided between a carrier and its affiliate pursuant to publicly filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly- filed agreements or statements;
- c. nontariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation shall be recorded at the prevailing price. In order to qualify for prevailing price valuation, sales of a particular service to third parties must encompass greater than 25% of the total quantity of such service sold by an entity. Carriers shall apply this 25% threshold on a service-by-service basis rather than on a service line basis. See “Exceptions” below;
- d. all other services sold by or transferred to a carrier from its affiliate shall be recorded at no more than the lower of fair market value and fully distributed cost. See “Exceptions” below;

all other services sold by or transferred from a carrier to its affiliate shall be recorded at no less than the higher of fair market value and fully distributed cost. See “Exceptions” below.

Exceptions:

Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds

the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the service does not reach or exceed \$500,000, the service shall be recorded at fully distributed cost.

- Fully distributed cost is determined by following the standards contained in 47 C.F.R. Section 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs, which cannot be directly assigned, are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs, which cannot be apportioned on any cost-causative basis, will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.
- A BOC and a section 272 affiliate may provide in-house services to one another, except for operating, installation, or maintenance services prior to March 30, 2004. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (See CC Docket No. 96-149, First Report and Order, para 180; see also WC Docket No. 03-228, Report and Order, para. 8, 12, 16, 24, 31)
- Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure. (See CC Docket No. 96-150, Report and Order, para. 124) These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)
- The separate affiliate must provide a detailed written description of the asset or service transferred and the terms and conditions of the transaction on the Internet within ten days of the transaction through the company's home page. (Note: a transaction is deemed to have occurred once the BOC and its affiliate have agreed upon the terms and conditions of the transaction, not when the service is actually performed or the asset actually sold (See CC Docket No. 96-150, Report and Order, para. 124)). The description of the asset or service and the terms and conditions of the transaction should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC. The information made available at the principal place of business of the BOC must include a certification statement identical to the certification statement currently required to be included with all Automated Reporting and Management Information System ("ARMIS") reports. Such certification statement declares that an officer of the BOC has examined the submission and that to the best of the officer's knowledge all statements of fact contained in the submission are true

and the submission is an accurate statement of the affairs of the BOC for the relevant period. (See CC Docket No. 96-150, Report and Order, para. 122)

- Section 272(b)(3) does not preclude an affiliate of the BOC, such as a service affiliate, or the parent company of both the BOC and its section 272 affiliates from performing functions for both the BOC and its section 272 affiliate. The affiliate transaction rules apply to transactions between the BOC and a nonregulated affiliate of the BOC, such as a service affiliate, and to transactions between the BOC and its parent company. Under the principle of “chain transactions,” the affiliate transaction rules also apply to any transactions between the section 272 affiliate and a nonregulated affiliate of the BOC, such as a service affiliate, that ultimately result in an asset or service being provided to the BOC. (See CC Docket No. 96-150, Report and Order, para. 183)
- In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25% threshold has been satisfied. (See CC Docket No. 96-150, Report and Order, para. 137; CC Docket No. 00-199, Report and Order, Appendix F Section 32.27)
- Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its section 272 affiliate(s) with the exception of joint marketing, which is covered in section 272(g) of the Act. Unaffiliated entities must have equal opportunity to acquire any such goods, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a section 272 affiliate, it must ensure that the section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (See CC Docket No 96-149, First Report and Order, para. 218)
- Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265; see also C.F.R. 61.45(d)(1)(v))

PROCEDURES

1. Describe in the report and document in the working papers the procedures used by BST to identify, track, respond, and take corrective action on competitors’ complaints with respect to alleged violations of the section 272 requirements. Obtain from BST a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with section 272 for the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period (May 24, 2003 through May 23, 2005). The list should also include outstanding complaints from the prior engagement period, which had not been resolved during that period. The list should group the complaints in the following categories:

- allegations of cross-subsidies (for Objectives V and VI);
- allegations of discriminatory provision or procurement of goods, services, facilities, and customer network services information (excludes customer proprietary network information (CPNI)); or the establishment of standards (for Objective VII);
- allegations of discriminatory processing of orders for, and provisioning of, exchange access, exchange services, and unbundled network elements; and discriminatory resolution of network problems (for Objective VIII);
- allegations of discriminatory availability of exchange access facilities (for Objective IX);
- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group, determine by inquiry and review of documentation how many of the complaints were under investigation, how many complaints had been resolved, and in what time frame they had been resolved, if feasible. Disclose this information in the report. For those complaints that had been resolved, document and disclose in the report how those allegations were concluded. If the complaint was upheld, inquire, document and disclose in the report what steps the company has taken to prevent those practices from recurring. For all complaints that were filed in the previous engagement period, but were still open as of May 24, 2003, determine by inquiry and review of documentation how many of these complaints were under investigation as of the end of the current engagement period, how many complaints have been resolved as of the end of the current engagement period (and in what time frame they had been resolved), and disclose results in the audit report. For those complaints that have been resolved, document and disclose in the report how those allegations were concluded, and if the complaint was upheld inquire and document and disclose in the report what steps the company has taken to prevent those practices from recurring.

Note: Although applicable to complaints pertaining to Objective V/VI, VII, VIII, IX and XI, this procedure appears only once and will be performed only once for Objectives V/VI, VII, VIII, IX and XI. Reporting of the results of this procedure in the final report should be found here under Objective V/VI, Procedure 1, and should include the results for each respective objective.

2. Obtain from BST and the section 272 affiliate, current written procedures for transactions with affiliates. Compare these procedures with the FCC rules and regulations indicated as "standards" above. Note and describe any differences and disclose them in the report.
3. Inquire and describe how BST and the section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transactions rules. For this purpose, describe in the report the type and frequency of any training, any literature distributed, and any company policies. Document in the report

- any supervision received by employees responsible for affiliate transactions. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules. If there are more than 12 such employees, judgmentally select 12 employees for interview. If there are 12 or fewer such employees, select all for interviews. Disclose in the report whether these employees demonstrated knowledge of these rules.
4.
 - a. Obtain a listing of all written agreements for services and for interLATA and exchange access facilities between BST and each section 272 affiliate which were in effect during the Audit Test Period. Note which agreements are still in effect. For those agreements no longer in effect, indicate the termination date; identify agreements terminated prematurely and document why and disclose in the report. Inquire and document and disclose in the report the provisioning of any non-tariffed service without a written agreement.
 - b. Obtain a listing of all written agreements, amendments and addenda that became effective during the Audit Test Period. For a statistically valid sample of such agreements, amendments and addenda, obtain (include in the practitioner work papers) copies of written agreements, amendments and addenda.
 5. Using the sample of the agreements, amendments and addenda obtained in procedure 4b, view the BellSouth corporate web site on the Internet and compare the prices, terms and conditions of services and assets shown on this site to the agreements provided in Procedure 4b above. Disclose in the report any instance where any item in the agreement does not agree with the corresponding item on the Internet. Using the same sample as above, obtain a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. Using a judgmental sample of locations agreed to by the Joint Oversight Team, by physical inspection, determine whether the same information is made available for public inspection at the principal place of business (BOC headquarters) of BST. Describe any differences and inquire why such differences exist and disclose in the report. If the company makes any claim of confidentiality for nondisclosure, obtain details. It should be noted that these transactions should be posted for public inspection within ten days of their occurrence. Document in the workpapers the dates when the sampled agreements, amendments and addenda were signed, and/or the dates when the services were first rendered (whichever took place first), and the dates of posting on the Internet. Inquire and note in the report late postings and reasons when posting took place after ten days of signing of agreement or provision of service (whichever took place first). Document in the working papers the procedures the company has in place for posting these transactions on a timely basis. The information provided on the Internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see CC Docket No. 96-150, Report and Order, para. 122). Such disclosures should include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the disclosure should include the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services priced at fully distributed costs or estimated fair market value, the disclosure should include the number and type of personnel assigned to the project and the level of expertise of such personnel (including the associated rate per

- service unit (e.g. contacts, hours, days, etc)). Service transactions should also disclose any special equipment used to provide the service, and the length of time required to complete the transaction. Additionally, the disclosure should state whether the hourly rate is a fully-loaded rate, and whether or not that rate includes the cost of materials and all direct and indirect miscellaneous and overhead costs for goods and services provided at fully distributed cost. If the information disclosed on the Internet is not sufficiently detailed as described above, document and describe in the report the total number of agreements that were observed with insufficient detail, and the particular item(s) not sufficiently detailed. Inquire of management and document in the report why such differences exist. (See CC Docket No. 98-121, In the Matter of Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; Memorandum Opinion and Order; Released October 13, 1998, para. 337.) Obtain copies of these public postings and include in the working papers.
6. Obtain a listing of all nontariffed services rendered by the BOC/ILEC(s) to each section 272 affiliate, by month, during the Audit Test Period. Determine which of these services are made available to both section 272 affiliates and to third parties.
- a. From the services not made available to third parties:
1. Determine the 10 services with the highest billing volume in dollars over the Audit Test Period (including all BOC/ILECs and all states) that were billed to the section 272 affiliates (including all section 272 affiliates). Randomly select three individual non-consecutive months during the Audit Test Period. For each month selected, obtain the billing records for all states, all BOC/ILECs, for the 10 “highest billing volume” services previously identified. Billing records should reflect the billing to all section 272 affiliates. For each “highest billing volume” service, randomly select 10 billing transactions from the three months of billing records. (If there are fewer than 10 services not made available by BOC/ILECs to third parties, continue selecting billing transactions until 100 transactions are selected from the billing records.) For each transaction, determine compliance with section 32.27 of the Commission’s Rules. Compare unit charges to Fully Distributed Cost (FDC) or Fair Market Value (FMV) as appropriate; also check for any “chain” transactions. When differences exist between the amount recorded as revenue by the BOC/ILEC, the amount billed by the BOC/ILEC, and the amount to be charged in accordance with the affiliate transaction rules, note in the report the number of instances and related amounts, and, after inquiry, document in the report the reasons for these occurrences.
 2. For the sample of billing transactions selected in step 1, test each transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, that the billed amount was paid by the section 272 affiliate, and that the payment was recorded by the BOC/ILEC. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts

corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. When any differences exist, note in the report the number of instances and the amount by which each item is different than the amount required by the rules and, after inquiry, the reasons for these occurrences. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts. Inquire of management and document in the report the reasons for any differences.

- b. From the services made available to both section 272 affiliates and to third parties:
 - 1. Determine the 10 services with the highest billing volume in dollars over the Audit Test Period (including all BOC/ILECs and all states) that were billed to the section 272 affiliates (including all section 272 affiliates).
 - 2. Randomly select three individual non-consecutive months during the Audit Test Period. For each month selected, obtain the billing records for the 10 “highest billing volume” services identified in step 1. Billing records should be for all BOC/ILECs, all states, and reflect billing to all section 272 affiliates. For each “highest billing volume” service, randomly select 10 billing transactions from the three months of billing records. For each billing transaction selected, test each transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, that the billed amount was paid by the section 272 affiliate, and that the payment was recorded by the BOC/ILEC. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Determine if the transaction billed to the section 272 affiliate complies with section 32.27 of the Commission’s Rules. When differences exist, note in the report the number of instances and the amount by which each item is less than the amount required by the rules and, after inquiry, the reasons for these occurrences. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment of the bill by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts. Inquire of management and document in the report the reasons for any differences.
- 7. Using the listing obtained in Procedure 6 of services rendered by month by BST to each section 272 affiliate during the Audit Test Period, determine if any of the services rendered include operating, maintenance, or installation (OI&M) functions.

- a. Disclose in the report whether BST is rendering any OI&M services to each section 272 affiliate, and the date any such provision of service started. Disclose in the report whether any such OI&M services are or are not made available to third parties.
 - b. If BST renders OI&M services to any section 272 affiliate, determine the following and disclose in the report:
 - date affiliate agreement was effective (date signed);
 - date affiliate agreement was posted to the internet;
 - date BST filed its Cost Allocation Manual (CAM) amendments with the FCC, and the effective date of those CAM amendments.
8. Obtain a listing of all services rendered by month by each section 272 affiliate to each BOC/ILEC during the Audit Test Period.
 - a. Determine the 10 services with the highest billing volume in dollars over the Audit Test Period (including all BOC/ILECs and all states) that were billed by the section 272 affiliates (include all section 272 affiliates) to the BOC/ILECs. Randomly select three individual non-consecutive months during the Audit Test Period. For each month selected, obtain the billing records for the 10 “highest billing volume” services previously identified. Billing records should be for all BOC/ILECs, all states, and reflect billing from all section 272 affiliates. For each “highest billing volume” service, randomly select 10 billing transactions from the three months of billing records. For each transaction, determine whether the amounts recorded for the purchase of the sampled services in the books of the BOC/ILEC are in accordance with the affiliate transactions rules of the Commission (section 32.27). Compare unit charges to Fully Distributed Cost (FDC), Fair Market Value (FMV), or prevailing market price (PMP) as appropriate; also check for any “chain” transactions. When differences exist, note in the report the number of instances and the amount by which each item is different from the amount required by the rules and, after inquiry, the reasons for these occurrences. Also disclose in the report the differences between the amount the BOC/ILEC has recorded as expense for the transaction in its books of account, and the amount the BOC/ILEC has paid for the transaction to the section 272 affiliate.
 - b. For the sample of billing transactions selected in step A, test that the transaction was properly recorded as revenue by the section 272 affiliate, and that the billed amount was paid by the BOC. For this purpose, inspect the Accounts Receivable record of the section 272 affiliate (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording of the billing of the service by the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded.
9. Using the balance sheet information and the detailed listing obtained in Procedure 6 under Objective I, for items added since May 24, 2003, perform the following steps:

- a. For those items purchased or transferred from BST obtain net book cost and fair market value. Inquire and document in the report how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of BST at the higher of FMV or net book cost, as required by the Commission's rules in section 32.27 and disclose in the report.
 - b. For those items purchased or transferred from another affiliate, identify and document in the report whether they were originally transferred from BST to other affiliates.
 - c. For those items purchased or transferred from BST, either directly or through another affiliate, since May 24, 2003, inquire and obtain details of how BST provided equal opportunity for unaffiliated entities to obtain ownership of them. Disclose the results in the report. Describe and disclose in the report how and upon what basis BST decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity.
10. Obtain as of the end of the Audit Test Period a detailed listing of all fixed assets which were purchased or transferred from each section 272 affiliate to BST since May 24, 2003. This detailed listing should include a full description of each item, location, date of purchase, price paid and recorded, and from whom purchased or transferred. For those items purchased or transferred from a section 272 affiliate, obtain net book cost and fair market value. Also determine if these items were originally transferred to the section 272 affiliate from some other affiliate (BOC or other), or purchased originally by the section 272 affiliate. Inspect these transactions to determine whether they were recorded in the books of BST at the lower of FMV or net book cost, as required by the Commission's rules in section 32.27. Disclose results of this inspection in the audit report.
11. Select a statistically valid sample of assets and/or services priced pursuant to section 252(e) (e.g., as approved by the regulatory commissions) or statements of generally available terms pursuant to section 252(f). Compare the price BST charges the section 272 affiliate with the price stated in the publicly filed agreements or statements. Document any differences in the report.
12. Inquire and obtain details about whether BST sold or transferred any part of its Official Services network to the section 272 affiliate since May 24, 2003. In addition to the requirements for Procedure 9, for any transfer or sale of Official Services network assets on or after May 24, 2003, inquire and obtain details of how BST provided equal opportunity for unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis BST decided to transfer/sell the facilities to the section 272 affiliate instead of an unaffiliated entity. Disclose all of the above facts in the report.

Procedures for Nondiscrimination Requirements

OBJECTIVE VII. Determine whether or not the Bell Operating Company (BOC) has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities and information, or in the establishment of standards.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a section 272 affiliate's equipment in the procurement process. (See First Report and Order, para. 16)
- in awarding contracts for telecommunications equipment directly to their affiliate in a manner that violates section 273(e)(1) or 273(e)(2). (See First Report and Order, para. 234)
- by failing to provide advance information about network changes to its competitors. (See First Report and Order, para. 16)
- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its section 272 affiliate at the same rates, terms, and conditions. (See First Report and Order, para. 202 and 218)

NOTES:

- (i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well as the types of service offerings to which the customer subscribes and the extent the service is used.
- (ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of interLATA services (see section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing

conducted by the section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its section 272 affiliate(s) over third parties. (See First Report and Order, para. 208 and 229)
- in developing new services solely for its section 272 affiliate(s). (See First Report and Order, para. 210)
- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its section 272 affiliate was ready to provide competing service. (See First Report and Order, para. 211)
- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (See First Report and Order, para. 292)

NOTE:

A BOC's obligation to inform callers of their long distance choices is limited to customers who order *new* local exchange *service*. A caller orders "new service" when the customer either receives service from the BOC for the first time, or moves to another location within the BOC's in-region territory. (See *In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic – New York, Defendant*, Memorandum Opinion and Order, File No. EB-00-MD-011; FCC 00-362; at ¶¶ 13-15.)

In addition, a section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (See First Report and Order, para. 287)

PROCEDURES

1. Obtain BST's written procurement procedures, practices, and policies. Review these policies for any stated purchasing preferences, and disclose in the report. Also disclose in the report the bidding and selection processes of BST, and how BST disseminate requests for proposals (RFPs) to affiliates and third parties.
2. Obtain and inspect BST's procurement awards to the section 272 affiliate during the period June 1, 2003 through February 28, 2005. Inspect bids submitted by the section 272 affiliate and by third parties. Note terms, discuss with BST representatives how the selection was made, and disclose this information in the report. Compare this practice with BST written procurement procedures and note any differences. Disclose in the report all instances of procurement awards given to the section 272 affiliate. For these awards, disclose in the report all differences between the terms of bids submitted by the Section 272 affiliate and the terms of bids submitted by third parties.
3. Obtain a list of all goods (including software), services, facilities, and customer network services information (excluding CPNI as defined in section 222(f)(1) of the Act, exchange access services and facilities [inspected in Objective IX], and interLATA services [inspected in Objective XI]) made available to the section 272 affiliate by BST. For a statistically valid sample of items from this list, obtain and inspect copies of the media used by BST to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price and on the same terms and conditions. Disclose in the report the results of this procedure.
4.
 - a. Obtain a list of all goods (including software), services, facilities, and customer network services information (excludes CPNI) that were purchased during the Audit Test Period from the BOC/ILEC(s) by both an unaffiliated entity and any section 272 affiliate in any state. (NOTE: This list should **exclude** joint marketing services, exchange access services and interLATA services that are the subject of other procedures.) If any, describe in the audit report what goods, services, facilities, and customer network services information were purchased and the extent of purchases made. Determine the 10 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). For each service selected, determine the billing system(s) used by each BOC/ILEC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and unaffiliated third parties.
 - b. For services using the same system to bill both the section 272 affiliates and unaffiliated third parties, perform the following:
 1. For each system used by each BOC/ILEC to bill the section 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization. Test the key controls of each BOC/ILEC system identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and

management's explanation as to why such exceptions exist.

2. Randomly select 1 section 272 affiliate and 1 unaffiliated third party invoice for each of the top 10 services identified in procedure 4a.
 - i. For the respective services, trace the section 272 affiliate and unaffiliated third party invoices to the appropriate billing system to confirm that each transaction was billed using the same system.
 - ii. Compare the rate charged the section 272 affiliate to the rate charged the unaffiliated third party. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.
- c. For the services using different systems to bill the section 272 affiliates and unaffiliated third parties, perform the following:
 1. For each system used by each BOC/ILEC to bill the 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization. Test the key controls of each BOC/ILEC system identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and management's explanation as to why such exceptions exist.
 2. Randomly select three months during the Audit Test Period. For each service, randomly select 10 billing transactions across the months selected. Compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service to the unaffiliated third party to the rate charged in the system used to bill the service to a section 272 affiliate.. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.
- d. Obtain and summarize in the report the description of BSLD's accounts payable processes and controls to record and issue payments to the BOC/ILEC. Test the key controls of BSLD's accounts payable processes identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and managements explanation as to why such exceptions exist.
5. Document and disclose in the report how BST disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to the section 272 affiliate and to unaffiliated entities. Note any differences in the report.
6. At the customer service call centers observed in procedure 7 below, obtain and inspect scripts that BellSouth Telecommunications, Inc.'s customer service representatives recite

- to new customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service within the BOC in-region territory. If these scripts contain language that attempts to sell interLATA services, note and disclose in the report whether these scripts inform the consumers that there are other providers of interLATA services besides the section 272 affiliate. Also note whether, if requested, these other providers are identified to the consumers along with the interLATA service affiliates. In addition, obtain and inspect the written content of the BellSouth Corporation website for on-line ordering of new service and move service. Note and disclose in the report whether the consumers are informed that there are other providers of interLATA services and whether these providers are identified to the consumers, along with the interLATA service affiliate.
7. Obtain a complete listing of all BST customer service call centers as of the end of the Audit Test Period.
 - a. From the complete listing above, compile a list of BST acquisition call centers that respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. From this listing, identify and group each call center by type of customer, i.e., large business, small business or consumer. Using a random number generator, select one call center for large business, one call center for small business, and three consumer call centers. Listen in to 100 inbound calls (10 large business calls, 30 small business calls, and 20 calls per consumer call center) in which BST customer service representatives attempt to market the section 272 affiliate's interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service. Labor union concurrence may be needed for this procedure. Note messages conveyed while listening in. Note and disclose in the report any instances where the customer service representative steered the caller to obtain the interLATA services of the Section 272 affiliate, did not inform the caller of the availability of other providers of interLATA services, and/or did not inform the caller of his right to select the InterLATA services provider.
 - b. From the complete listing of all BST customer service call centers, compile a list of BST sales and support call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service. Using a random number generator, select five call centers and listen in to 20 calls per center for consumers requesting to establish new BellSouth local telephone service or requesting to move an existing local telephone service within the BOC in-region territory. If any consumers call into BST sales and support call centers requesting to establish new local telephone service or to move an existing local telephone service, the practitioner should contact the Oversight Team before proceeding, unless the BST sales and support representative immediately refers the caller to a BST customer service center.
 8. Obtain a listing of all BST inbound telemarketing centers in which representatives of third-party contractors respond to, or might incidentally respond to, inbound callers requesting to establish new local telephone service or to move existing local telephone service. Listen in to 25 calls at each third-party contractor site. If any consumers call into any

BST third-party contractor inbound telemarketing centers requesting to establish new local telephone service or to move an existing local telephone service, the practitioner should contact the Oversight Team before proceeding, unless the third-party contractor representative immediately refers the caller to a BST customer service center.

9. Identify the controls utilized by BST and the third party contractors hired for inbound telemarketing to assure compliance by BST with section 272. Compare BST controls with third party contractor controls and document differences in the audit report. Describe all controls in the report.
10. Obtain and review each of the contracts between BST and the third party contractors discussed in Procedure 8. Document in the audit report all controls contained in the contracts relating to section 272.
11. By Consent Decree in FCC 03-174 released July 17, 2003, BellSouth agreed that its section 272(d) audits will include steps evaluating BellSouth's compliance with certain requirements included in paragraph 11(a) of the Consent Decree.
 - a. Confirm and disclose in the report that BellSouth has represented (i) they will comply with the separate affiliate requirements set forth in 47 U.S.C. 272, including section 272(d), until such time as each of the nine states in BellSouth's region is relieved from the requirements, and (ii) they agree that BellSouth will be subject to enforcement proceedings for noncompliance with section 272 that occurs after July 17, 2003, in any of the nine states in BellSouth's region until such time as each of the nine states in BellSouth's region is relieved from the requirements.³
 - b. Document and disclose in the report the revisions BellSouth has made to the section 272 training for employees of BellSouth Corporation, which includes employees of BST and BSLD, as well as BellSouth's small business third-party telemarketing vendors, in response to the Consent Decree. These revisions should have included new materials more focused on the operational working relationship between BST and BSLD. Document and disclose in the report whether a 'Mastery Test' has been taken by each BellSouth employee and each employee of the affected third party (as described above). Disclose the results of such tests in the audit report. Inquire, document, and disclose in the report whether mandatory training was begun in June 2003, and was completed by December 2003.
 - c. Document and disclose in the report whether BellSouth has replaced its former compliance program in the Small Business organization with a centralized Small Business Compliance Group (or a successor group) to monitor and evaluate compliance obligations for both BellSouth small business employees and small business third-party telemarketing vendors. Document in the report the date such replacement became effective. Determine and document in the report whether

³ In the Matter of BellSouth Corporation; *Order*; FCC 03-174, ¶¶ 11(a)(i) and 11(a)(ii); Released July 17, 2003.

the Compliance Group maintains a certification program and a tracking mechanism to ensure that all small business training programs are completed and completed in a timely manner.

OBJECTIVE VIII. Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

STANDARDS

Although the FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, reached various conclusions, further proceedings in this matter, currently underway, will provide the implementing rules and regulations. We will revise these procedures to conform to the new rules and regulations when adopted by the FCC, and to the extent in effect during the engagement period. The conclusions reached by the Commission provide that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (See First Report and Order, para 240)
- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (See First Report and Order, para. 242)
- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its section 272 affiliate at a given price. (See First Report and Order, para. 16)

In its section 271 applications, BST made commitments regarding compliance with section 272(e)(1) of the Act. This included the commitment to provide the performance monitoring that will assist in confirmation of nondiscriminatory performance in BellSouth Telecommunications, Inc.'s dealings with its section 272 affiliate. If the Commission adopts reporting requirements, BST will fully comply.

PROCEDURES

1. Document in the working papers the practices and processes BST has in place to fulfill requests for telephone exchange service and exchange access service for the section 272 affiliate, the BOC and other BOC affiliates, and nonaffiliates in each state where BST has been authorized to provide in-region interLATA services. If the section 272 affiliate, or the BOC and other BOC affiliates, are treated differently than nonaffiliates, note and describe all differences in the report. Describe in the report BST's internal controls and procedures designed to implement its duty to provide nondiscriminatory service.
2. For each state where BST has been authorized to provide in-region inter-LATA services, document in the working papers the processes and procedures followed by the BOC/ILEC to provide information regarding the availability of facilities used in the

provision of special access service to its section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates. Note any differences in the report. Inquire of management whether or not any employees of the section 272 affiliates or BOC and/or other BOC affiliates have access to, or have obtained information regarding, special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the section 272 affiliates or BOC account managers to employees who may have facilities availability information). Disclose in the report any such instances.

3. For each state where BST has been authorized to provide in-region interLATA services, obtain the written methodology that BST follows to document time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), for provisioning of service, and for performing repair and maintenance services described in Procedure 4 below. Obtain this information for the Section 272 affiliate, as well as the BOC and other BOC affiliates. Briefly describe the methodology in the report. If the company does not have any written procedures, ask why and document the reason in the report.
4. For each state where BST has been authorized to provide in-region interLATA services, obtain and include as an attachment to the report, performance data and related volumes maintained by BST during the period June 1, 2003 through May 31, 2005, by month. Indicate time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, and repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates, as separate groups. Provide performance data for the following services:
 - Telephone exchange service, if any of the separate groups resells local service or intraLATA toll service. This does not include the selling of BOC local service or intraLATA toll service to retail customers.
 - Exchange access services as provided through an ASR for DSO, DS1, DS3, feature group D, and OCn, as individual groups; for the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.
 - Unbundled network elements, if the section 272 affiliate purchases unbundled network elements.
 - Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The table below should be used as guidance for the information to be included in the metrics. If no performance measures are applicable for both the “Section 272 affiliates” and the “BOC and other BOC affiliates” groups, performance metrics for nonaffiliates are not required. When reporting performance measures for the “nonaffiliates” group, only performance measures for the services purchased by the “Section 272 affiliates”

and/or the “BOC and other BOC affiliates” need be reported. For each group (Section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates) and each service category (telephone exchange service, exchange access service, UNEs, and PIC change orders) combination in the table below for which BST makes a claim of “not applicable”, the practitioner must confirm independently that there are no such measurements to be reported, or get a representation letter from management as to why such measurements do not need to be reported in this engagement.

**SUMMARY OF COMPANY TYPE AND SERVICE TYPES FOR PERFORMANCE
MEASUREMENT REPORTING**

Company Type	Telephone Exchange Service	Exchange Access Service (ASRs Only)	UNEs	PIC Change Orders (both interLATA and intraLATA PIC changes)
272 Affiliate	Included - if the 272 affiliate resells local service or intraLATA toll service	Included	Included if applicable	Included
Other Affiliates, Including the BOC(s)	Included - to measure services provided on a Resale basis	Included - to measure services provided to end users on a Retail basis, and Wholesale services provided to affiliates	Included if any section 272 affiliate purchases UNEs from the BOC	Included if applicable
Non-Affiliates (includes all entities purchasing services for resale or on a wholesale basis)	Included - to measure services provided on a Resale basis	Included	Included if any section 272 affiliate purchases UNEs from the BOC	Included

The performance measures should include the requested performance data by month, including related parity scores, for each state beginning June 1, 2003 and ending on May 31, 2005 (the twenty-fourth full month for which performance data is available). Where appropriate, the performance measures data shall reflect the standard deviation, as well as mean. For purposes of inclusion in the audit report, the practitioner should obtain all restatements of any performance data, and include in the report the latest restatement.

For each of the above service categories, except for PIC change orders, the measurements shall be those that BST has committed to maintain in each section 271 application to prove compliance with these nondiscriminatory requirements, as follows:

- a. Firm Order Confirmation (FOC) Timeliness - The average amount of time (in days) from the receipt of a valid service request to the distribution of a Firm Order Confirmation back to the originating carrier. This measurement is produced by dividing the sum of all FOC intervals by the total number of service requests confirmed in the reporting period. Indicate the total number of order requests for each service and for each group of customers.
- b. Average Installation Interval - The average interval (in days) between the application for service (ASR) by the carrier (or in some cases the issuance of the service order) and the actual completion of the service order expressed in days compared to the average BellSouth offered interval and the average requested customer desired due date (CDDD) interval. Each interval is calculated by dividing the sum of each interval (i.e., ASR to CDDD, ASR to FOC due date, and ASR to completion date) by the number of carrier service orders completed during the report period. Indicate the total number of service orders for each service and for each group of customers.
- c. % Installation Appointments Met - The percentage of installation commitments met during the current reporting period. This measurement is calculated by dividing the number of carrier installation orders completed during the report period on or before the BellSouth-provided commitment date by the total number of installation orders received from the carrier and committed to completion during the same report period. Indicate the total number of installation orders for each service and for each group of customers.
- d. Trouble Report Rate – Percentage of initial and repeated circuit-specific carrier trouble reports received per 100 circuits in service for the report period. The percentage is calculated by dividing the number of carrier trouble reports received by the number of carrier circuits in service during the report period. Troubles per 100 circuits in service are expressed as a %. Indicate the total number of circuit-specific trouble reports for each service, for each group of customers.
- e. Average Repair Interval - The average outage duration or interval (in hours) for trouble reports received from carriers. The repair interval starts at the receipt of the trouble report and ends when the trouble report is reported as cleared to the

originating carrier. This measurement is calculated by dividing the total number of hours of outage for all carrier trouble reports received during the report period by the number of carrier trouble reports received during the report period. Indicate the total number of trouble reports for each service, for each group of customers.

For PIC change orders, the measurements shall be as follows:

Average Installation Interval - PIC Changes – The average amount of time (expressed in hours) between the date/time the carrier's PIC-related order is placed and the date/time the PIC-related service order was completed. This time is calculated by dividing the number of hours/minutes required to complete all installation orders received from the carriers by the total number of installation orders received from the carriers during the same report period. Indicate the total number of PIC change orders for each group of customers.

Note and disclose in the report differences in time in fulfilling each type of request for the same services from the section 272 affiliates, the BOC or other BOC affiliates, and nonaffiliates. Elicit explanations from BST where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC or other BOC affiliates. Provide in the report a linear graph for each state, for each performance measure, for each service, for the twenty four months of performance data, depicting the performance for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. If the requested performance data is not available in the manner described in this procedure (by month, by company type, by services) for the entire engagement period inquire and disclose in the audit report the period and description of the data that are lacking and the reasons why.

5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly select three months. For each section 272(e) performance metric, for each state, and for each service category described above in Procedure 4, apply the business rules to the underlying data for the three months selected. Compare the results to those tracked and maintained by BellSouth Telecommunications, Inc., for that performance metric. Applying the business rules must include all stages of the performance metric including definitions, exclusions, calculations, and reporting structure. Document any differences in the report.
6. Determine first by inquiry and then by inspection, how and where BST makes information available to unaffiliated entities regarding service intervals in the provision of any service to the section 272 affiliate, the BOC or other BOC affiliates, and nonaffiliates. Document the results in the report.

OBJECTIVE IX. Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

STANDARDS

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate. (See First Report and Order, para. 16)
- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its section 272 affiliate. (See First Report and Order, para. 316)

PROCEDURES

This objective is closely related to Objective XI that contains procedures for the provision by BST of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain a list of exchange access services and facilities, with their related rates, offered to the section 272 affiliate. Inspect to determine whether BST makes these services and facilities available at the same rates and on the same terms and conditions to all carriers. For this purpose, request and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered to the section 272 affiliate with those offered to unaffiliated carriers. Note all exceptions in the report.
2.
 - a. Obtain a listing of all exchange access services and facilities rendered to the section 272 affiliate(s) and other interexchange carriers (IXCs) during the Audit Test Period in any state. If any, describe in the audit report what exchange access services and facilities were purchased and the extent of purchases made. Determine the 10 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). For each service selected, determine the billing system(s) used by each BOC/ILEC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and unaffiliated third parties.
 - b. For services using the same system to bill both the section 272 affiliates and unaffiliated third parties, perform the following:

1. For each system used by each BOC/ILEC to bill the section 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization. Test the key controls of each BOC/ILEC system identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and management's explanation as to why such exceptions exist.
 2. Randomly select 1 section 272 affiliate and 1 unaffiliated third party invoice for each of the top 10 services identified in procedure 2a
 - i. For the respective services, trace the section 272 affiliate and unaffiliated third party invoices to the appropriate billing system to confirm that each transaction was billed using the same system.
 - ii. Compare the rate charged the section 272 affiliate to the rate charged the unaffiliated third party. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.
- c. For the services using different systems to bill the section 272 affiliates and unaffiliated third parties, perform the following:
1. For each system used by each BOC/ILEC to bill the 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization. Test the key controls of each BOC/ILEC system identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and management's explanation as to why such exceptions exist.
 2. Randomly select three months during the Audit Test Period. For each service, randomly select 10 billing transactions across the months selected. Compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service to the unaffiliated third party to the rate charged in the system used to bill the service to a section 272 affiliate. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.
- d. Obtain and summarize in the report the description of BSLD's accounts payable processes and controls to record and issue payments to the BOC/ILEC. Test the key controls of BSLD's accounts payable processes identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and management's explanation as to why such exceptions exist.

OBJECTIVE X. Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carrier for such service.

STANDARDS

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate (See First Report and Order, para. 16). This requirement is met,
 - If the affiliate purchases exchange service and exchange access service at tariffed rates. (See First Report and Order, para. 256)
 - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under section 251. (See First Report and Order, para. 256)
 - If the BOC files with the State Commission a statement of generally available terms pursuant to section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's section 272 affiliate obtains access or interconnection at a price set forth in the statement. (See First Report and Order, para. 256)
 - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (See First Report and Order, para. 257)
- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (See First Report and Order, para. 258)
- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (See First Report and Order, para. 256). This tariffed rate must be the highest rate paid for access by unaffiliated carriers. The BOC may consider the comparability of the service provided. (See CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain a list of all interLATA services offered by BST and discuss list with appropriate BST employees to determine whether the list is comprehensive. Compare services appearing on the list with interLATA services disclosed in the BST's Cost Allocation Manual (CAM) and note any differences in the report. Compare the nonregulated interLATA services listed in BST's CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences and disclose them in the report.
2. From the list of services obtained in Procedure 1 above, by using a statistically valid sample of interLATA services offered by BST and not through an affiliate, determine whether BST is imputing (charging) to itself an amount for access, switching, and transport. If imputation is not occurring for any interLATA service offered by BST, inquire of management and document in the report why this situation is occurring. For each service for which imputation is performed, for three months during the Audit Test Period, randomly selected, obtain usage details and tariff rates for each for each of the access, switching, and transport elements. Match rates used in calculations with the tariff rates or the highest rates charged other interexchange carriers (IXCs). Note any differences in the report. Trace amount to the journal entry and to the general ledger of BST. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by BST is different from the one described above, disclose in the report.
3. For each of the following categories of services, i.e., exchange access services, local exchange services, and unbundled network elements, provided by BST to the section 272 affiliate for the 12 months of the engagement period ending February 28, 2005, document the total amount the section 272 affiliate has recorded as expense for those services in their books, and compare the amounts booked as revenues by BST to the amounts recorded by the section 272 affiliate. Also compare the amount recorded as expense to the amount paid by the section 272 affiliate to BST. Where there is a difference in any of the comparisons, inquire as to the reason(s) why, and disclose in the report.

OBJECTIVE XI. Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

STANDARDS

Valuation and recording of procedures for sales or transfers of any interLATA or intraLATA facilities to any section 272 affiliate, the leasing of any unbundled network elements, or the provision of any service by the BOC to any section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC services and unbundled network elements made available under section 251 to each section 272 affiliate must also be made available at the same price to unaffiliated companies. (See CC Docket No. 96-149, First Report and Order, para. 256)

PROCEDURES

This objective is closely related to Objective IX, which contains procedures for the provision, by BST of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain a list of interLATA services and facilities, with their related rates, offered by BST to the section 272 affiliate. For each service, determine whether the service is actually provided to (subscribed to by) the section 272 affiliate. Determine whether BST makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, obtain and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services.

Compare the list of interLATA services offered obtained from BST to the services found in the requested information media and note any differences in the audit report. In addition, compare the list obtained from BST to the list of interLATA services obtained in Objective V/VI, Procedure 4, and to the list of interLATA services obtained in Objective X, Procedure 1 (after comparison to the CAM). Document in the audit report any instance where services were found in either the list of services from Objective V/VI, Procedure 4, the list of services from Objective X, Procedure 1, or in advertising media that were not reported by BST in response to this procedure. Also document in the audit report any interLATA services that are offered to any section 272 affiliate, but which are not covered by any written agreements.

2. Using the information media obtained in Procedure 1, select a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered each section 272 affiliate with the rates, terms, and conditions offered unaffiliated carriers and disclose differences in the report.

3.
 - a. Obtain a listing of all interLATA services and facilities rendered to the section 272 affiliate(s) and other interexchange carriers (IXCs) during the Audit Test Period in any state. If any, describe in the audit report what interLATA services and facilities were purchased and the extent of purchases made. Determine the 10 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). For each service selected, determine the billing system(s) used by each BOC/ILEC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and unaffiliated third parties.
 - b. For services using the same system to bill both the section 272 affiliates and unaffiliated third parties, perform the following:
 1. For each system used by each BOC/ILEC to bill the section 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization. Test the key controls of each BOC/ILEC system identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and management's explanation as to why such exceptions exist.
 2. Randomly select 1 section 272 affiliate and 1 unaffiliated third party invoice for each of the top 10 services identified in procedure 3a.
 - i. For the respective services, trace the section 272 affiliate and unaffiliated third party invoices to the appropriate billing system to confirm that each transaction was billed using the same system.
 - ii. Compare the rate charged the section 272 affiliate to the rate charged the unaffiliated third party. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.
 - c. For the services using different systems to bill the section 272 affiliates and unaffiliated third parties, perform the following:
 1. For each system used by each BOC/ILEC to bill the 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization. Test the key controls of each BOC/ILEC system identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and management's explanation as to why such exceptions exist.
 2. Randomly select three months during the Audit Test Period. For each service, randomly select 10 billing transactions across the months selected. Compare the rates (including all terms and conditions, discounts, surcharges, late

fees, etc.) charged for the service to the unaffiliated third party to the rate charged in the system used to bill the service to a section 272 affiliate. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.

d. Obtain and summarize in the report the description of BSLD's accounts payable processes and controls to record and issue payments to the BOC/ILEC. Test the key controls of BSLD's accounts payable processes identified using the control testing sample size guidelines in Paragraph 9. Disclose in the report any exceptions, and management's explanation as to why such exceptions exist.

Procedures for Subsequent Events

1. Inquire of management whether companies' processes and procedures have changed since the time of execution of these procedures and May 24, 2005. If so, identify those changes and re-perform the related procedures to determine continued compliance with those requirements. Disclose in the report changes and results of the procedures re-performed.
2. Inquire of and obtain written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Disclose in the report any such event.

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October 21, 2005

Via Hand Delivery

Mr. Wayne Jackson
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Via E-Mail and U.S. Mail

Ms. Sherry Herauf
Federal Communications Commission
445 12th Street, SW
Room 4-C330
Washington, DC 20554

Via E-Mail and U.S. Mail

Mr. Joe Paretti
Federal Communications Commission
6 Durham Lane
Suffern, NY 10901

Re: BellSouth's Comments to Section 272 Agreed-Upon Procedures Engagement

Dear Mr. Jackson, Ms. Herauf, and Mr. Paretti

Attached is BellSouth's response to the results obtained in PricewaterhouseCooper's ("PwC") Report ("Report") related to the rules and regulations regarding Section 272 of the Telecommunications Act of 1996 ("the Act"). Pursuant to 47 C.F.R. § 53.213(b), BellSouth is sending this response to PwC, with a copy to the Joint Federal/State Oversight Team ("JOT"), to be included as part of the Final Report.

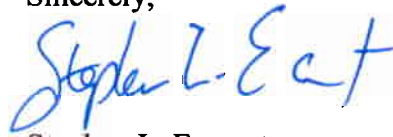
BellSouth believes that the Report provides the JOT solid evidence that BellSouth is in overall compliance with all rules and regulations associated with Section 272, both those specifically required by the Act and those promulgated by the Commission. This overall compliance is the result of BellSouth's diligent efforts in creating effective policies and

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procedures and implementing internal controls to ensure its compliance with all such rules and regulations. BellSouth's response provides additional information to specific issues where explanation and/or clarification is needed.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stephen L. Earnest". The signature is fluid and cursive, with the first name "Stephen" being the most prominent part.

Stephen L. Earnest

SLE:lb

Enclosures

606804

<u>Section 272 Audit Report</u>	<u>BellSouth Response</u>
<p data-bbox="235 313 541 342"><u>Objective I.; Procedure 6:</u></p> <p data-bbox="283 402 1018 699">From a population of 207 items in the detailed fixed asset listing and the clearing accounts that were acquired since May 24, 2003, we selected a random sample of 80 transmission and switching facilities. We requested the title and/or other documents, which reveal ownership, for the sample selected. Management provided invoices and where applicable, the supporting reconciliations to the amount stated on the detailed fixed asset listings, as support for ownership. We noted the following:</p> <ul data-bbox="283 756 1018 1364" style="list-style-type: none"> • For 45 of 80 items, we noted that the assets were billed to the Section 272 affiliate. <ul style="list-style-type: none"> • 20 of the 45 items were shipped to a BST location. • 25 of the 45 items were shipped to a BSLD location. • For 35 of 80 items selected, we noted the following: <ul style="list-style-type: none"> • For 9 of 35 items were billed to BCPS with a BSLD shipping address. • For 19 of 35 items were billed to BCPS with a BST shipping address. • For 1 of 35 items were billed to BST with a BST shipping address. • For 6 of 35 items, we noted two separate entities being invoiced. For 1 of 6 invoices, the entities invoiced were BCPS and BST. For 5 of 6 invoices, the entities were BSLD and BCPS. 	<p data-bbox="1060 378 1858 643">For the items listed as being shipped to BST, these items relate to assets purchased by BSLD that are to be placed in service at space collocated on BST facilities. Thus, the assets were shipped directly to the BST location. This includes the one item below referenced as being “billed to BST with a BST shipping address.” The item was shipped to a BST collocation space. The vendor properly sent the invoice to BSLD, to the attention of a BSLD employee, but improperly listed the billing party as BST.</p> <p data-bbox="1060 695 1858 1092">Of the 35 assets in the Ownership section that the Report notes had a company name listed that was different than that of BSLD, all were purchased and are owned by BSLD. A company name other than BSLD being listed on the invoice is the result of the vendor incorrectly listing a company name other than BSLD’s on the invoice and does not automatically indicate that the asset was purchased by an entity other than BSLD. BSLD purchases some of its assets from the same vendors that also sell assets to other BellSouth entities. The invoice name not agreeing with BSLD’s is simply a clerical error made by these vendors. BSLD will continue to attempt to have vendors correctly list BSLD as the purchaser in the future when it buys assets.</p>

<u>Section 272 Audit Report</u>	<u>BellSouth Response</u>
<p>Objective V/VI; Procedure 2(a):</p> <p>11. We requested and obtained BST's and BSLD's current written procedures for transactions with affiliates and compared these procedures with the FCC Rules and Regulations indicated as "standards" in the General Standards Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended. We noted BST's and BSLD's written procedures included the FCC Rules and Regulations indicated as standards above except for the following:</p> <p><i>"Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265; see also C.F.R. 61.45(d)(1)(v))."</i></p> <p>This standard could not be located in the Company's written procedures.</p>	<p>BellSouth does not have such a statement in its policies and procedures nor is it required to do so. When an asset is transferred from BST to any party, whether an affiliate or a third party, that asset is no longer on BST's books. Therefore, the impact of that asset automatically is removed from all financial records as prescribed by GAAP.</p>

<u>Section 272 Audit Report</u>	<u>BellSouth Response</u>
<p><u>Objective V, VI; Procedure 6:</u></p> <p>We obtained a listing and amounts of non-tariffed services rendered by month by BST to the section 272 affiliate from June 1, 2003 through February 28, 2005.</p> <p>(2) We randomly selected three non-consecutive months from June 1, 2003 through February 28, 2005 from all the states. The months selected were September 2003, January 2004, and March 2004. For the ten “Highest Billing Volume Services”, we randomly selected 94 invoices from all the states during the selected months as follows:</p> <p>For each invoice, we compared the billing rates in the invoice to the rates on the associated contract. We noted the following:</p> <ul style="list-style-type: none"> • For 2 of 94 invoices, it appears there is a difference between the billed late payment charge (“LPC”) calculation and the contracted LPC calculation. The two invoices were for Billing and Collection and Professional Services. <ul style="list-style-type: none"> • For 1 of 2 invoices, it appears there is a difference between the billed LPC calculation of \$0.43 and contracted LPC calculation of \$0.25. The invoice was for Billing and Collection. • For 1 of 2 invoices, it appears there is a 	<p>The charge shown is for interest on unpaid balance. The billing system calculated the standard interest rate rather than the interest rate in the contract. BellSouth is continuing to research this issue.</p> <p>This service is billed manually. The charge of \$76.13 is interest on unpaid balance. The person preparing the bill inadvertently added a \$9.00 LPC, which was not appropriate in this circumstance. The process has been corrected.</p> <p>USOC PE1BB was on a previous Georgia collocation contract for non-recurring space preparation charges. The October 19, 2001 Georgia Public Service Commission Order changed space prep from a non-recurring flat rate charge to the FCC standard recurring rate charges. The rate file for BSLD was not changed to reflect this. The rate file has been updated and BST is reviewing the account for any necessary refund.</p>

<u>Section 272 Audit Report</u>	<u>BellSouth Response</u>
<p>difference between the billed LPC calculation of \$85.13 and contracted LPC calculation of \$76.13. The invoice was for Professional Services.</p> <ul style="list-style-type: none"> For 1 of 94 invoices, it appears there is a difference between the billed rate of \$100 for USOC PE1BB and the contracted rate of \$0.00. The invoice was for Collocation service. 	
<p><u>Objective VIII; Procedure 4:</u></p> <p>For each state where BST has been authorized to provide in-region interLATA services, we requested from BST performance data and related volumes maintained by BST during the period June 1, 2003 through May 31, 2005, by month. We requested that BST indicate intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the section 272 affiliate, the BOC and other BOC affiliates, and non-affiliates, as separate groups for the following</p>	<p>BST performed root cause analysis on all metrics that hinted at an appearance of disparity between BSLD and unaffiliated third parties. The analysis revealed that the difference between performance for BSLD compared to performance for unaffiliated third parties was not any attempt to treat BSLD in a more favorable manner than unaffiliated third parties, but was a result of operational issues or reflected the ordering/purchasing behavior of different customers</p> <p>The detailed root cause analysis explanations are included in the Report. There is one measurement, however, that BellSouth</p>

<u>Section 272 Audit Report</u>	<u>BellSouth Response</u>																								
services:	believes deserves further explanation – Trouble Report Rate.																								
<p style="text-align: center;">***</p> <p>We obtained the performance measurement reports provided by management and compared the reported intervals for the section 272 affiliate, and BOC and other BOC affiliates groups to the reported intervals for the non-affiliates. We noted that there are nine metrics reported on the performance measurement reports, as opposed to the seven listed above. This is because the Average Intervals measure is reported separately on three charts – one for Average Intervals – Requested, one for Average Intervals – Offered, and one for Average Intervals – Installation. We noted certain instances where the reported intervals for fulfillment of requests from non-affiliates took longer than for either the section 272 affiliate or the BOC or other BOC affiliates.</p>	<p>The Trouble Report Rate is calculated as the number of completed circuit specific trouble reports received divided by the total number of in-service circuits reported. Thus, any time a trouble report is made to BellSouth, the TRR is affected regardless of whether or not the report is a legitimate BellSouth problem. This is particularly important because, as the ILEC, customers, wholesale and retail, tend to call BellSouth first to report a trouble and then isolate it only after BellSouth has determined the trouble not to be in the BellSouth network. To demonstrate, BellSouth reviewed the total number of trouble reports made during the audit time frame and found that at a minimum, 25% of the reports turned out to be No Trouble Found/or Tested OK (“NTF/TOK”). BellSouth also looked at the percent of trouble free service it provided during the audit time frame and found that, at a minimum, it provided 97.95% trouble free service for DS1’s and 98.31% trouble free service for all other access services. BellSouth provides these figures by state:</p> <table><tr><th colspan="4">Trouble Free Service</th></tr><tr><th><u>State</u></th><th><u>DS-1</u></th><th><u>All other Access</u></th><th><u>NTF/TOK</u></th></tr><tr><td>Al</td><td>98.08%</td><td>98.57%</td><td>29.00%</td></tr><tr><td>FL</td><td>98.58%</td><td>98.70%</td><td>27.00%</td></tr><tr><td>GA</td><td>98.48%</td><td>98.68%</td><td>31.00%</td></tr><tr><td>KY</td><td>98.48%</td><td>98.68%</td><td>27.00%</td></tr></table>	Trouble Free Service				<u>State</u>	<u>DS-1</u>	<u>All other Access</u>	<u>NTF/TOK</u>	Al	98.08%	98.57%	29.00%	FL	98.58%	98.70%	27.00%	GA	98.48%	98.68%	31.00%	KY	98.48%	98.68%	27.00%
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<u>Section 272 Audit Report</u>	<u>BellSouth Response</u>																				
	<table><tr><td>LA</td><td>97.95%</td><td>98.65%</td><td>32.00%</td></tr><tr><td>MS</td><td>98.08%</td><td>98.31%</td><td>31.00%</td></tr><tr><td>NC</td><td>98.51%</td><td>98.90%</td><td>25.00%</td></tr><tr><td>SC</td><td>98.28%</td><td>98.48%</td><td>31.00%</td></tr><tr><td>TN</td><td>98.54%</td><td>98.69%</td><td>26.00%</td></tr></table> <p>Thus, BellSouth does not believe that the items listed in Table 24 present any parity problems viewed in context to the trouble free services provided for access services over the audit test period.</p> <p>To further explain the months listed as out of parity in Table 24, however, BellSouth reviewed the root cause analysis on the differences between the BOC/other affiliate and the non-affiliate and determined that there were two main causes for the listed disparities. First, the BOC/other affiliates and the non-affiliates order very different mixes of products. The BOC/other affiliates have primarily frame relay in service, which are ‘virtual” circuits that can be repaired most of the time without a dispatch. This, of course, means the interval for repair time will be shorter. Second, the BOC/other affiliates generally have a much higher volume of NTF/TOK reports, which are closed in a shorter time than other troubles.</p>	LA	97.95%	98.65%	32.00%	MS	98.08%	98.31%	31.00%	NC	98.51%	98.90%	25.00%	SC	98.28%	98.48%	31.00%	TN	98.54%	98.69%	26.00%
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<u>Objective VIII; Procedure 5</u> Using a random sampling method, we selected the months	<p>There were several measures in which the amounts PWC determined should be included in the population for calculating the performance measures differed from the amount used by BellSouth.</p>																				

<u>Section 272 Audit Report</u>	<u>BellSouth Response</u>
<p>of November 2003, November 2004 and April 2005 for which to perform the metric replications. For each state for the selected months, we obtained the related underlying performance metric data files from management. We also obtained, from management, the BellSouth Service Quality Measurement (SQM) Plan, which contains business rules used to calculate the metrics stated in Procedure 4. We applied these business rules to all stages of the metric calculation process, including definitions, exclusions, calculations and reporting structure. The SQM contains business rules for the following services:</p> <p style="padding-left: 40px;">Special Access, Switched Access, and Resale.</p> <p>Because telephone exchange services (i.e., resale) were not required as a result of Procedure 4, we replicated the metrics per the business rules contained in the SQM only as they applied to special access and switched access.</p> <p>We developed, based on our understanding of the business rules for the calculation of the performance measures, program code to apply the algorithms and calculation criteria for the replication of the performance measures to the underlying performance metric data. Using our developed program code, we replicated the numerator, denominator and result for each of the performance measures for all states for the selected months. We performed the performance measure replications for each of the service types (i.e.,</p>	<p>These differences are noted for the specific measurements in Tables 26 through 35. These differences are typically one or two records for a particular service, per state, per month. Two types of events almost universally caused the differences. First, an error occurred in inputting data to the system. For example, as the Report notes for FOC timeliness BellSouth's data gathering system, PMAP, only recognized the correct network code of "LX/04FCF.X". Unfortunately, sometimes a keying error occurred and the typist keyed in "LX/04FCFX", with no period between the F and X. Because the PMAP system only picked up the correct code, the items with coding errors did not make it into the PMAP population. PWC found the typing errors and included them in its calculations. Second, BellSouth had not coded its PMAP system to exclude certain missed appointment codes. For example, in the Percent Installation Appointments Met, PMAP had not been programmed to exclude codes beginning with an "E"; this code represents appointments missed due to errors. Therefore, a small number of records were not excluded from the BellSouth calculations.</p> <p>These errors are all very limited and when they were made they were made across the board, not just for one test group (e.g., not just for BSLD). Indeed, this is reflected in the comparison tables produced by PWC. The tables also show that the differences calculated by PWC versus those calculated by BellSouth are generally immaterial and usually favor non-affiliates over BSLD and other affiliates. In every case where PWC noted that a code change should be made, BellSouth has either made or scheduled the change. Moreover, in cases where the incident involved an input error, BellSouth has included coding to address possible errors that could result from the keying problems. That is, if the correct code is LX/04FCF.X, BellSouth attempted to code all likely derivatives that may be mis-keyed such as LX/04FCFX (no period between F and X) and LX/04FCF X (a space between F and X instead of a</p>

<u>Section 272 Audit Report</u>	<u>BellSouth Response</u>
<p>DS0, DS1, etc.) and reporting segmentations (i.e., section 272 affiliate, other affiliates and non-affiliates) as required by the procedures.</p> <p>We noted no differences between our results and those reported by management based on our independent replications, except as noted below</p>	<p>period).</p>
<p><u>Objective X; Procedure 2</u></p> <p>In testing imputation of access charges for interLATA services offered by BST, PWC noted instances where the imputation amount differed from the tariff amount for “E911” and “NDA, EDA, and Reverse Search”</p>	<p>The difference noted for E911 is explained in the report. The difference for NDA, EDA, and Reverse Search is immaterial and was caused by an employee calculation error. BellSouth conducted discussions with the supervisor of the employee that made the error and emphasized the need for accuracy.</p>